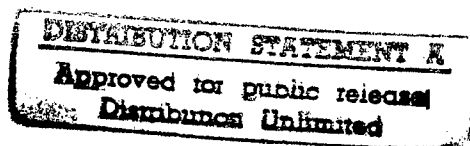


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Dissident MRF Official Interviewed

91BA1121A Sofia BULGARIYA in Bulgarian
14 Aug 91 pp 8-9

[Interview with independent People's Deputy Miroslav Durmov, chairman of the Parliamentary Commission on National Security and former Movement for Rights and Freedoms official, by Elza Dimitrova; place and date not given: "Miroslav Durmov: 'I'm Coming to the Conclusion That Some People Are Interested in Threatening Our National Security'"]

[Text] Miroslav Durmov entered the political life of the country as a public prosecutor. He is one of the founders of the Committee for National Reconciliation, Restoration of Violated Human Rights, and Resolution of Ethnic Conflicts in Bulgaria. Later he became an MRF [Movement for Rights and Freedoms] expert and was elected a people's representative from Kurdzhali. The differences of opinion that arose between him and the movement's leadership compelled him to leave the parliamentary bloc and continue his participation in the work of the parliament as an independent deputy. In Mr. Durmov's opinion, the MRF leaders have swerved in their policy, which left them at a very great distance from the platform with which the voters' confidence had been won. In the present interview, however, we shall disregard "family" disagreements since Mr. Durmov is engaged in something of extreme importance for our fatherland—he is deputy chairman of the Parliamentary Commission on National Security.

[Dimitrova] In the Bulgarian Radio broadcast "Postfactum," you mentioned that the funds appropriated by the budget for guaranteeing our national security are absolutely insufficient and need to be urgently updated.

[Durmov] Yes, that is so. The inflation of the lev and the resultant rise in the worth of foreign currency, as well as the change in fuel prices resulting in a change of various types of other prices, raise national security problems in a complicated situation. And this poses a real threat to the Republic of Bulgaria's internal and external security. Much of the funds provided goes for pay for personnel and for compensations for the reductions in force that have been made; housekeeping costs are growing, too. This budgetary deficiency affects the Army's immediate combat readiness and disrupts the training process. The troops' ration supply is also imperiled, for the expenditures of financial resources for troop rations in the first quarter alone constituted 62 percent of the budgetary funds. Our commission has proposed that the Ministry of Defense budget be increased by another 490 million leva. For analogous reasons the Ministry of Internal Affairs is not in a position to perform its functions of preserving internal security and public order. Spare parts for the water and aircraft of the Border Troops, special types of weapons, and means of individual protection are imported with hard currency. The Ministry of Internal Affairs needs a 55-million budgetary increase.

The present operation of the National Intelligence Service is especially hard-pressed. It needs another 20 million leva, failing which its actual and effective functioning would be brought into question.

[Dimitrova] Is this a consequence of the severe economic crisis into which our country has fallen, or are the reasons more complex?

[Durmov] One of the principal problems is that we are emerging from a collective security system (with the collapse of the Warsaw Pact) and are moving towards individual security. But we lack a doctrine of national security and of the priorities in our foreign policy as a result of the changed realities. In addition there is no governmental program either. All this in combination with the economic crisis results in ambiguities (to put it mildly) in respect of the question of our national security. Besides the lack of priorities, we can add also the irresponsible and unprofessional commentaries of some people, as well as some politicians.

[Dimitrova] What do you have in mind?

[Durmov] Commentaries about the treaty with the Soviet Union and, more precisely, the military clauses. In this connection I want to say that 95 percent of the spare parts supply for our military equipment comes from the Soviet Union and any unilateral denunciation of the treaty or noninclusion of the military clauses would disarm the Bulgarian Army for 25 years in a row. Nobody would grant us funds for rearmament and this would threaten our national security. A serious danger is also presented by certain politicians' effort to make our intelligence activity overt, something for which there is no analogue in world history. This is a specific Bulgarian phenomenon! Every state has its own intelligence service to provide the data the government needs in order to work out its economic and political strategy. From time immemorial there have been secrets in policy, even from one's best friends. But some of the structural and functional changes put into practice in the intelligence services, as well as the lack of a doctrine and an authorizing act of the National Assembly, required someone to assume the political and juridical responsibility therefore. The same approach was applied in the MVR [Ministry of Internal Affairs] structure as well. Except for the political police, there were professionals employed in other offices who served Bulgaria. But a great deal has been done to discredit them in the eyes of the Bulgarian citizens.

[Dimitrova] Has not the same thing, to a certain extent, also happened to the Bulgarian Army?

[Durmov] Yes, even though it, together with the MVR authorities, is the guarantor of the development of democracy in Bulgaria and of the country's stability against the chaos in which some people have an interest. The MVR mission at the moment is very onerous since in the transition from totalitarianism to democracy society shoulders all the adverse aspects of this process—poverty, crime, etc.—but we have to understand and

perceive them as reality and, correspondingly, understand the necessity for the governmental institutions we are talking about. Bulgaria needs strong law-enforcement organizations during this period.

[Dimitrova] And relevant information too, perhaps?

[Durmov] Yes, unfortunately our experiments in the intelligence service have not resulted in reciprocity. There is a strong intelligence presence in our country. Hence we must draw the corresponding conclusions, namely, that for a sovereign state analogous information is necessary too.

[Dimitrova] Recently there has begun to be much talk about our military industry, too ... about so-called conversions ... would we produce razor blades...?

[Durmov] Our military industry gives rise to special and well-grounded uneasiness. It is an industry that is at a high European level, provided with the latest breakthroughs of European technology, and which has always been profitable. The results of its production and exported output are calculated in tens of billions of dollars and rubles. Specialists of world-class stature are employed in this industry. Yet the ideological approach towards it is frightfully disturbing. What does depoliticizing this industry mean!? It's possible to depoliticize the production of sausages, but not missile production as well! Also disturbing is the effort to break up this industry and create hundreds of firms that made to impose an administrative course (such as Ognyan Doynov also applied) in the solution of the problem, which will lead to an adverse effect. The "tattering" of nearly 100 firms in the military industry will inevitably be disastrous not only for our economy, but also for national security. To be sure, the question of conversion is timely and serious, but it must be decided on the basis of thoroughgoing analyses rather than administratively and en masse, "ruled into little squares and cut up with scissors." And we should not permit key personnel, trained for decades, to be sent to the employment office and then lost. Actually, we must seek a modern way of running the military industry. There are many alternatives. One alternative, for example, may be a state holding company or consortium of firms. But in no event must we permit a vacuum during the reorganization or permit liquidation of units that are important for the overall production flow.

[Dimitrova] Do your recommendations involve our national security?

[Durmov] We are uneasy about the modernization of the First Turkish Army in Eastern Thrace on the basis of a transfer of modern military equipment from Central Europe to the South. On this score, serious guarantees for Bulgaria must be found. Second, let me repeat once more, our Army's spare parts supply. If we permit supplies to be cut, this will be a betrayal of Bulgaria's national interests. And, third, we must not permit Bulgaria to be deprived of the possibility of independent information and we must halt any attempts whatsoever

to destroy the Bulgarian intelligence service. We must halt the lunacies of the sort of dismantling the so-called secure rooms in the embassies, where bugging is impossible. Even the banana republics don't permit this! Instead, we must elaborate a doctrine of national security and priorities, as well as the related missions of defense and intelligence service. We must also prevent the destruction of our specialized industry as I have said... If all this is drawn up in a mosaic, one may come to the conclusion that some people are interested in posing a threat to our national security. These units that we have talked about are crucial to Bulgaria's security. And if those who are occupied with policy are actually concerned about Bulgaria's interests, they must in no event permit this.

[Dimitrova] Your anxiety is understandable. Recently you have talked quite often to the mass information media about national security questions. Have your statements evoked any reaction?

[Durmov] Yes, they have. Mr. Akhmed Dogan's letter, in which he urges that I should be removed from the national security commission since I have become an independent deputy. I believe that so far I have been independent, for I have followed solely my conscience and my convictions on the principal problems that form the core of my activity. But this reaction encourages me. It shows that I have hit the target precisely in my statements. In final analysis, anyone who decides to engage in politics must be guided solely by the interests of Bulgaria and bear responsibility to her.

Banking Officials on Problems, Opportunities

Postal Bank Chief

91BA1176A Sofia DELOVI SVYAT in Bulgarian
2 Sep 91 pp 1-2

[Interview with Vladimir Vladimirov, chairman of the Bulgarian Post Office Bank, by Mara Georgieva; place and date not given: "Its Only Shortcoming Is That Its Glass Is Not Armor-Plated"]

[Text] Vladimir Vladimirov was born on 1 August 1946 in Sofia. He is a physics graduate of the Kl. Okhridski University in Sofia and the K. Marks Higher Engineering Institute. He has worked in the BNB [Bulgarian National Bank] as general director, chief secretary, and chief of the Bank Supervision Administration. He is married and has one child.

[Georgieva] What is the statutory capital of the Bulgarian Post Office Bank and who are its stockholders?

[Vladimirov] The Bulgarian Post Office Bank has a statutory capital of 60 million leva. If this is considered a criterion, our bank will rate eighth among the more than 70 commercial banks in the country. The bank shareholders are the Committee for Communications and Information and the NDK [People's Palace of Culture].

[Georgieva] What distinguishes the Bulgarian Post Office Bank from the other commercial banks?

[Vladimirov] The Bulgarian Post Office Bank should not be considered a new creation. It was founded on 1 April 1896 and, theoretically at least, it functioned until 1951, when it was closed down by an act of government. I was told by a friend that he had already thought of an advertising slogan: "The bank of our fathers and grandfathers." The Post Office Bank served one million customers. It is no accident that to this day older people show great respect for the Post Office, which at one point was the embodiment of the Post Office Bank. In the case of a bank, its reputation, traditions, and its conservative nature are of great importance.

[Georgieva] The Post Office Bank is starting with a clean slate....

[Vladimirov] Yes, it does not have any loans that are difficult to collect or are uncollectable. This is another one of its advantages.

[Georgieva] What services will your bank be able to offer to its customers?

[Vladimirov] The Post Office Bank will engage in all types of banking activities allowed by the law. It has a license issued by the BNB to engage in foreign currency transactions as well. We have a powerful dealership.

[Georgieva] What interest on deposits will the Post Office Bank pay?

[Vladimirov] Starting with 21 August, the bank has been paying the following interest on deposits, with a basic interest rate of 54 percent: 48 percent annual interest; capitalized interest, 60.1 percent. For a three-month deposit the annual interest rate is 50 percent; capitalized, it is 60.18 percent. For six-month deposits, the annual interest rate is 54 percent; capitalized, 61.29 percent. For one-year deposits, it is 62 percent, and for open-end deposits, 38 percent.

[Georgieva] Do you have any preferences when you grant loans?

[Vladimirov] The Post Office Bank is universal. It serves all companies and private citizens, regardless of sectorial activities. Clients who request a loan must meet the bank guarantee criteria.

[Georgieva] What more will you be offering to your customers?

[Vladimirov] Good service. Each bank has its own policy. Some banks are short of resources while others have surplus funds. Through their interest policy banks attract or reject those who invest money or seek loans. Excluding cases of disloyal competition among banks, the main factor will be the quality of services. In that area we shall be very competitive. Our bank premises meet European standards. The only fault foreign bankers could find was that our glass is not armor-plated.

[Georgieva] Has the bank set up branches?

[Vladimirov] The Post Offices will be the bank's branches. For the time being, we have a Sofia city branch at 1 Bulgariya Boulevard, and seven offices in Sofia: at the central post office; at the post office branch No. 6 at the Ruski Monument; at post office branch No. 13, near the Pliska Hotel; the post office branch No. 84 at the Mladost-1 residential district; at post office branch No. 92, Druzhba-1 residential district; post office branch No. 36, Lyulin residential district; and post office branch No. 26 at Velchova Zavera Square.

[Georgieva] Where will be the location of future bank branches and offices?

[Vladimirov] We shall have bank branches in all former okrug centers. In Sofia there will be about 100 offices. The idea is to cover about 3,000 villages and cities throughout Bulgaria. The advantage is that the bank services go to the clients. By the end of the year we must set up our network in Sofia. Once the model has been prepared in the capital, it will quickly spread throughout the country.

[Georgieva] Will you be competing with the DSK [State Savings Bank]?

[Vladimirov] Naturally, for our bank as well would like to become the bank for the population. The DSK is a powerful institution. However, the fact that people have to line up at its branches unquestionably proves that the quality of its services has declined.

[Georgieva] Do you fear any future integration among banks?

[Vladimirov] Unquestionably, the economic reform requires a bank reform as well. Bulgaria must be open to foreign banks. In order to be competitive, our banks must be reorganized. We have more than 70 banks with a rather small statutory capital. The minimal statutory capital required for the foreign banks is \$50 million. That is why bank integration is necessary. Second, our banks have a great deal of loans out that are either difficult to collect or uncollectable. This greatly suppresses their activities and blocks their normal existence. Integration could reduce the percentage of loans either difficult to collect or uncollectable. Third, the new banks must have a powerful network of branches. Integration is necessary and does not frighten me. We are familiar with the concept that a person can claim to have lived if he has planted at least one tree. We created a bank. I am satisfied.

BNB Council Member

91BA1176B Sofia DELOVI SVYAT in Bulgarian
9 Sep 91 pp 1-2

[Interview with Lyubomir Filipov, member of the Bulgarian National Bank, BNB, Administrative Council and chief of the BNB Leva Operations Administration, by

Mara Georgieva; place and date not given: "There Are No Fixed Limits on Loans"]

[Text] [Georgieva] How is the BNB's [Bulgarian National Bank] restrictive policy manifested?

[Filipov] This is a policy through which the bank tries to restrict the expansion of loans or the monetary mass. In the case of Bulgaria, this was of exceptional importance when the economic reform was undertaken, for according to a comparison with the data of statistical manuals of the International Monetary Fund, we were perhaps the country with the highest ratio of loans to gross national product; both credits and the money in circulation exceeded the gross national product last year.

[Georgieva] What steps did the National Bank take?

[Filipov] Starting with last year we introduced the so-called "credit ceilings." This meant the amount by which we could raise the loans granted by commercial banks, compared with a certain base. Last year the credit ceiling for working capital was 95 percent of the loans for turnover capital at the start of the year. The loans for capital investments had specific ceilings. This one was mostly a year of administrative measures.

[Georgieva] What is the position held by the BNB for this year?

[Filipov] This year the position concerning the expansion of loans is based on our gradual coordination with the international monetary fund. We did not limit loans to citizens, for we knew that demand will decline because of the high interest. Nor did we limit loans in hard currency.

[Georgieva] What determines the loan ceilings?

[Filipov] They are based on the program which is included in the letter of intentions the Bulgarian Government sent to the IMF. A 9-percent increase for the half year in the credit expansion was established. This was established as the ceiling for leva loans issued by commercial banks. In the third quarter, the commercial banks have the right to increase the ceiling by 25 percent compared with last year's credits in leva.

[Georgieva] What results have you achieved?

[Filipov] The practical result was a stronger restriction than the one expected. According to the calculations of the IMF, we have reduced, in real terms, the money in circulation by 75 percent, due to the fact that it remained by nearly the same level although inflation increased significantly. In other words, currently the monetary mass is about 55 to 60 percent of the gross national product.

[Georgieva] Other than the credit ceilings there also are other restrictive policy instruments....

[Filipov] The other restrictive policy instruments are the relatively high interest rates. The problem arises with the old loans, many of which cannot be repaid and, in some

cases, the interest on which cannot be collected. The capitalized interest becomes part of the debt. Some banks, however, have unpaid interest, which is not considered part of the debt.

[Georgieva] What consequences would there be for commercial banks which violate the credit ceilings set by the BNB?

[Filipov] It would be difficult for them to violate the stipulated credit ceilings, for the commercial banks are being refinanced by the BNB. The BNB monitors the observance of its requirements. Furthermore, penalties are stipulated as well. Commercial banks, however can trade among themselves in credit ceilings. We are monitoring figures only at the end of the quarter. The banks may increase the amounts of loans they grant in the course of the quarter and, toward the end of the quarter, put pressure on the debtors to pay part of what they owe. This way, actually, on an average daily basis in the course of the quarter, the commercial banks may grant more credits than stipulated in the credit ceiling. The conclusion is that the credit policy is not so restrictive as it may appear.

Economic Chamber Chairman Interviewed

91BA1179B Sofia DUMA in Bulgarian 12 Sep 91 p 5

[Interview with Ivan Andonov, chairman of the Bulgarian Chamber of Economics, by Yuriy Popov; place and date not given: "It Is Time for the Economic Reform To Address Itself to Production"]

[Text] [Popov] Mr. Andonov, you have rich economic experience, although it was acquired under different circumstances. Do you support the reform?

[Andonov] Yes, unquestionably....

[Popov] So do I, so let this be the foundation of our discussion. How do you assess, on this basis, the current development of the reform? The monetary stage is behind us and it is as though the reform now is in a state of timelessness; the second stage is being delayed and the danger is present that we might sink as if in a swamp.

[Andonov] What can I tell you, I have only recently begun to participate in the discussion of problems related to the course of the reform. Being a pragmatist and a realist, I realize that the situation is not easy and simple in the least. However, I frequently think about the reaction of some people, population strata, and political forces, which do not participate in the practical efforts to implement the reform but act as observers, noting the facts and, as always, have some comments to make....

[Popov] To criticize....

[Andonov] I would not say so, they do not criticize always. However, they have something to say and, frequently, this makes me think of a soccer game at which the public knows precisely how the game should be

played but no one gets into the skin of the players. If we allow anyone who comments to play, I am sure that he would play less well. Such is, more or less, the situation today in terms of the course of the reform.

[Popov] Where do you believe you are: in the field or on the bench?

[Andonov] Until recently we, I mean the Bulgarian Chamber of Economics, were both in the field and among the public. Generally speaking, we did not participate in the game. The reasons for this could be found both outside the chamber as well as in the stance assumed by its leadership of waiting, of nonintervening. Now we have assumed a stance as an organization, not only in order to make ourselves be known but also actively to become involved in the various processes. Let me emphasize that this particularly applies under the conditions of social peace. We hold this position firmly, and we cannot agree either with the behavior shown by Podkrepa or the trade unions when they resort to force in order to resolve individual problems.

[Popov] Basic problems means reviving the production process, is that not so?

[Andonov] Yes, we have drafted a memorandum to this effect, which we have submitted to the government. In our seven points we state our views on why the reform is being delayed, and what now, despite the delay, should be the line of our attention and, subsequently, to concentrate on the resolution of social problems. I have been an economic manager and I know that the normal path of development begins not with wages but with new technologies, planning, investments, and production. Science and trade determine what is to be done, and once the production process is under way, wages come naturally.

[Popov] This does not happen by waiting.

[Andonov] I am referring to the expectation that in the reform at some point the wheel must start turning and production, production by the state, must increase. I am not speaking of privatization. In my view, however, this is a process which will take at least four to five years. During that period, there will be no real output coming from the private sector. This must be made absolutely clear. Such is the actual situation.

[Popov] At the beginning you mentioned options concerning the course of the reform. What are they?

[Andonov] The higher echelon, if I may call it such, relies on the efficiency of distribution and not on production efficiency. In my view, everything unrelated to production should be halted. For a while the casualties may be higher. This is already the second year that there is no solution which would open the way to the development of small enterprises with a new structure and new output.

[Popov] The Ministry of Industry, Trade, and Services is working on the organization of such enterprises....

[Andonov] It is a question of a system which would work automatically, which would be consistent with the conditions of a small enterprise and thus would enable it to obtain a loan from the bank and begin to build and produce, rather than a system which would provide partial solutions. Conditions must be created for the functioning of small enterprises, as though in an incubator, so that they could develop and increase production. Currently it is more profitable to keep the money in the bank and earn interest. However, these are frozen funds. Mr. Kostov believes that he has secured the budget. However, this is only for a while. Next year he will have no funds for the budget, for there will be no source of money.

[Popov] In what areas do you believe that the fastest results could be obtained?

[Andonov] There are 200 to 300 enterprises which, in a single year, were they to work normally, could earn enough money to develop the second line of enterprises.

[Popov] In what sectors?

[Andonov] In chemistry, for example: petroleum products, rugs, plastics, drugs, and microbiological items, at all cost. In the food industry. In practical terms, the goods are there but they have not been brought up to a point at which it could be offered on the international market. Or else take electronics. There are trends in electronics which could be developed. Medical technology as well has adequate possibilities.

[Popov] At that point the problem of markets arises.

[Andonov] We must clearly realize that the former socialist countries, the Soviet Union in particular, will remain the foundations of our economy for the next five years. If for at least another five years we do not export on those markets, we could not survive. No one says that we should not turn to the West. However, this must take place while we keep our presence in markets where we are known.

[Popov] We have not touched upon a basic problem: privatization. We are absolutely relying on it in coming out of the crisis.

[Andonov] There is talk about privatization in Bulgaria but nothing is being done. What is being done is deconcentration, which has nothing in common with demonopolization, not to mention privatization. Prerequisites should be provided for new enterprises to spring out like mushrooms, engaged in the production of the same type of goods, in order to develop competition and thus hit at the monopolists. For the time being there is demonopolization only in trade, where actually monopoly goods are being redistributed. This leads to higher prices domestically and to disloyal competition abroad. We must very quickly resolve the problem of exempting private production, for a while, from all taxes while increasing the taxes paid by resellers.

Furthermore, taxes on commercial activities paid by the producers themselves should become much more moderate.

[Popov] At a recent press conference, Aleksandur Dzherov, the chairman of the Parliamentary Legislative Commission, said that the law on privatization is exceptionally complex from the legal viewpoint, thus creating the impression that the law will be passed with great delays.

[Andonov] For that reason we should not wait but begin, issue some kind of document which would get the system moving.

For reasons unknown to me, the privatization commission has not been activated. By now it should have at least named the collectives which would have the right to assess capital assets. As a chamber, we have set up privatization groups in all former okrugs. Here we have a central group of experienced experts. In some places, such assessments have already been made on the basis of contracts. However, this is a partial accomplishment.

[Popov] Should we not wait for the privatization law?

[Andonov] In my view, we should not. These units, 28 in all, are under the aegis of the central unit which is using Western methods. We have reached agreements with British and German specialists, and those people are ready to come, at their own expense, and help us. By now the documents should have been ready so that, the moment the privatization law is passed, make some amendments if such are necessary, and immediately launch the privatization process. However, there must be an authority to acknowledge that these units have rights and that their work will be rated as privatization efforts. We have submitted our proposal to the Ministry of Industry, Trade, and Services, but they told us to wait for the law. If this were to take place after the law has been passed, we would need at least one year to complete the process, and only then would we be able to start the privatization itself.

[Popov] Therefore, what does the economic reform require now?

[Andonov] Action, action, without delay.

Role of Central Bank in Reformed Economy

91BA1175A Sofia BULGARSKI BIZNES in Bulgarian
2 Sep 91 pp 1, 3

[Article by Daniela Karakasheva: "Yet Another Opinion on the National Bank in the Jungle of the Market Economy"]

[Text] The law on the Bulgarian National Bank [BNB] was passed and enacted in the course of economic reform. Drafted in accordance with unchanged stereotypes and after having repressed the market for almost half a century, it was natural for this law to generate conflicting and incompetent opinions, assessments, and interpretations. That we are still trapped by the inertia of

our traditional nonmarket way of thinking makes us unable to understand and accept the philosophy and merits of a new law.

In drawing a parallel between the present law on the BNB and the old regulations that it rescinded, we can perceive the new status and functions of the national bank as an autonomous financial institution and a regulatory nucleus of the entire banking system. The new law (Article 47) legally establishes the independence of the bank from "instructions by the Council of Ministers and other state authorities in the conduct of its activities." The central bank will no longer be directly subordinate to the Council of Ministers. It will report on its activities to the National Assembly (Article 2), which will exclude the possibility of the state to make uncontrolled use of the bank as a source for covering state expenditures. The autonomy of the central bank is an achievement, and any effort to refute this by referring to the interaction between the bank and the state would prove a lack of understanding of the functions and place of the bank under contemporary economic conditions.

What is the range of the policy of the state, where does the policy of the bank begin, and is the "confrontation" between them necessary in order to make us believe that the BNB is independent? Concerned as they are about their own interests, the state and the bank must coordinate their initiatives in order to achieve the unified pursuit of macroeconomic results. The dialogue between the government and the bank could take place by exchanging information and holding joint business meetings. Article 45 stipulates that the bank will act as the representative of the Council of Ministers in managing the monetary funds of the state. However, the overall trend will be one of separating it from the executive branch. Let us not forget that the main function of the central bank in a contemporary banking system such as we would like to develop in our country, is to be the bank of the state. In that sense the doubts and reservations expressed concerning the "right of the bank to be a pillar of state financial policy" are not serious. The bank could be the creditor of the state, a relation which is settled with Article 46 of the law. Quite naturally, this triggers negative associations with our recent past.

This article imposes a major restriction that is being inaccurately interpreted. "The maximal amount of temporary loans which may remain unpaid at any given time may not exceed five percent of the annual state budget revenue, the sum of the deposited basic capital, and the assets of the 'reserve' fund." This is the clearly demarcated and maximally admissible limit within which the BNB could advance funds to the state. The central bank may not grant loans to the state above that limit, for this would be a violation of the law. The current trend in global practices is one of raising such ceilings. It is a primitive concept to consider the existence of a domestic state debt as the worst evil in economics, most frequently related to the outbreak of inflationary processes. Increased state indebtedness does not create an inflationary pressure if

the majority of current obligations do not entail the emission of money. The greater the possibility of the state is to finance itself through loans from commercial banks and from nonfinancial institutions, such as the population and companies, i.e., by redistributing the amount of money already in circulation, becomes, the lesser becomes the inflationary effect of the debt.

The central bank is the state's cashier and banker. It handles the cash aspects of the budget. The latter is reinforced by the remainder of the surplus of revenue over expenditures, after funds have been withheld for the reserve fund. Each bank sets up its own reserve fund with which it can meet unforeseen losses and payments. This is a feature shared by all banks. What distinguishes a central bank from a commercial bank is the profit element. Whereas in an ordinary bank profit is the basic operational principle and the aspiration and assessment of its activities, in the case of the central bank no such problem exists. Having a monopoly status in the emission of bank notes, in practice it has unlimited opportunities for as much earnings as it would like to have. Consequently, the profit, which is precisely the "remaining difference from the surplus of revenue over expenditures," after withholdings for the reserve fund, cannot be the purpose of a central bank. This profit goes to the state budget, for which reason the "linkage between the BNB and the state" is entirely natural. This is not simply a question of "strong financial patches" generously provided by the BNB for plugging holes in the budget, for any such behavior would be inconceivable and absurd. What should the bank do with such income if profit is not its final objective and if it does not deposit such profit in the budget, and since it is not a social or charitable institution? The idea that, guided exclusively by the desire to finance as much as possible the state budget will make the central bank resort to its tremendous rights and thus determine its credit and interest policy and that "its income most frequently will exceed its expenditures" is groundless. To reduce the existence of a central bank exclusively to the single objective of servicing the budget is absolutely without foundation. It has a great deal of other considerations related to the commercial banks, the stability of the overall banking system, and the overall economic balance, preventing its policy from being oriented exclusively toward promoting benefits to the state.

It is equally traditional in a normal banking system for the state to show some concern for the central bank, should the latter experience financial difficulties. The consequences may become immeasurably worse if no one could provide guarantees to or rescue the central bank, should the reserve fund prove to be insufficient to cover losses. The state must always back the bank and in such cases state intervention is mandatory. The link between the BNB and the state should not lead us to look for some kind of mysterious conspiracy or try to separate one from the other artificially. The connection between them exists, and it is close and quite natural. This is accepted in worldwide practices, and any brilliant Bulgarian inventions would be hardly welcomed in terms of

changing an already developed system which has been functioning for many decades, simply because our misshaped economic awareness and thinking may be unable to comprehend this.

A basic feature in the bank reform, in breaking up its monopoly structure and in creating a stable and fully functioning system, is the relationship between the central bank, the commercial banks, and the other specialized financial institutions. This is a rather complex issue, which makes the process of transformation in the banking business closely dependent on restructuring the industrial potential and the system of relations between the fiscal and production sectors of the economy. The new law on the BNB encourages changes in the system and provides an opportunity for a real conversion of this single system into a two-step banking system. It provides an opportunity for commercial banks to be free from the administrative supervision of the central bank and to begin to function on the basis of liquidity, stability and profit, in accordance with their own business considerations and economic interests.

The problem of the huge uncollectable loans inherited from the past should not become an obstruction to the bank reform. Its resolution must be related to the banks' ability to adapt to the conditions of a market economy, to restructure themselves and to stop being what they were so far: the executive economic authorities of the state. The main idea of the bank restructuring is the creation of a temporary consolidation company which would free the commercial banks from their burdening legacy. Such a company would hold the shares of the banks and act as their owner in accordance with the bylaws of the commercial banks, which means, above all, that there will be no pressure or bureaucratic administration. Having fulfilled its purpose, the bank holding company will sell the stock, disburse a proportional share to the stockholders and close down. This step is particularly necessary in order to strengthen the confidence of business circles, including foreign ones, in the banks.

The very moment they appeared within the banking system, the commercial banks revealed their burdensome deformations. These deformations were the result of making the BNB branches independent while using its facilities, and the fact that, once again, the BNB became their main stockholder. This legacy justifiably leads to the suspicion that the old system may have been included within the new economic reality. Such doubts are immediately dispersed with the stipulations of the law which makes it impossible for the BNB to be a shareholder in such banks, i.e., the BNB will be relieved of such ownership which, so far, constituted the strength of its monopolistic status.

In a two-step banking system, the central bank is the banker of the other banks and is concerned with the safety and viability of the entire system. According to Article 40 of the law, the commercial banks must keep a mandatory minimal reserve fund of 15 percent of their

total assets. Let us add that currently the mandatory reserves is seven percent of attracted funds. The impression is created that this amount of reserves, as well as the penalties should it be violated, put the banks in a very dangerous situation. Great financial difficulties and conditions leading to bankruptcies arise.

Having resolved the problem of uncollectable loans, let us take a look at banks which cannot set aside the mandatory reserve and which work efficiently. Most frequently, this applies to small regional banks with limited paid-up capital and a poor base for deposits. They are not competitive and are, above all, a threat to the entire banking system. The stipulation of a mandatory reserve should be considered an instrument for the overall improvement of the health and stabilization of the system. The BNB should not be burdened with social functions and concern about unprofitable economic subjects "unadaptable" to market conditions. Such concern would lead to paying a much stiffer social price than the one currently paid. The social commitment should be divided among other institutions of the state but not including the central bank.

Guided by the liquidity requirement, in exceptional cases the BNB may grant unsecured short-term loans to other banks. This is not a legal opportunity for tolerating

and rescuing "one's own" banks. Under the changed circumstances, and controlled by a collective management authority, it is difficult for the central bank to allow subjectivism and protectionism in their negative aspect. As the banks' bank, it must be concerned with surmounting the overall imbalance and instability and help the other participants in the banking market. This is an extreme measure for banks finding themselves in a condition of nonliquidity and insolvency, the next step usually being bankruptcy. The criterion on the basis of which the BNB will grant such loans is clearly indicated in the law. It includes the strict observance of the requirement of liquidity and solvency. Worldwide experience has indicated that the central bank has a great many rights along with many responsibilities. The dominating one is the firm public confidence which it enjoys. Its operations cannot be approached on the basis of preferences and friendship, i.e., granting privileged status to some banks. Obviously, the false socialist morality cannot conceive of the existence of such honorable and loyal behavior.

Unquestionably, the real indicator of the actual qualities of the law will be the extent and speed of change within a still unstable and incomplete bank sector and the behavior of the bank and the other economic agencies.

Highlights of New Income Tax Law Explained

91EP0711D Warsaw RZECZPOSPOLITA
(ECONOMY AND LAW supplement) in Polish
30 Aug 91 p III

[Article by Izabela Lewandowska: "Everyone Will Pay"]

[Text] From 1 January 1992 the tax system will change radically. On that day, a law pertaining to individual income tax will go into effect. This tax will replace five others which have existed thus far: a tax on wages and salaries, on remuneration, an income tax, a counter-vailing tax, and an agricultural tax that applies to so-called special areas.

Who Pays?

All residents of our country regardless of their citizenship will be subject to this tax if they remain on Polish territory, if only temporarily, but longer than 183 days during the fiscal year and regardless of whether the source or sources of their income are within our country or foreign. However, persons who do not have domicile or a place to stay within our country's borders will pay income tax only on income derived from work performed in Poland (Article 4).

Excluded from this tax are proceeds from agricultural activity (with the exception of special areas) as well as income in the form of inheritance and gifts. The aforementioned are subject to other tax rules.

In principle, each spouse will pay this tax separately on their income but it is possible that their income will be taxed jointly (Article 6). Then, it will come to double the tax amount computed on half of their joint income (e.g., one of the spouses earns 20 million zlotys [Z] annually and the other makes Z100 million—in this case, tax is computed on the basis of Z60 million and multiplied by two). Furthermore, such a method is possible if one of the spouses has no income whatsoever subject to this tax. Because of the progressive tax scale (the percentage "deducted" from income increases in proportion to its growth) this may sometimes turn out to be very advantageous for married couples.

Income from a partnership that does not include a corporate person (civil and public) as well as from joint ownership is taxed separately for each partner according to his/her share in the venture (Article 8).

All income of one person derived from various sources is subject to being summed up for purposes of this tax—such is the rule. However, there are numerous exceptions to the rule here. Above all, as many as 36 types of income are listed in the law that are totally exempt from the tax (Article 21). The following, among others, are included in this category: state conferred awards, disabled war veteran and military pensions, all kinds of compensation income including compensation paid during so-called group layoffs, winnings from lotteries and games of chance, business travel allowances, social assistance services and benefits, compensation due to expropriation

and what is important—interest on savings account deposits as well as on bonds and other types of securities (with the exception of dividends).

As has been the case until now, there will be no tax on money acquired from the sale of homes and privately-owned apartments (mortgaged cooperatives) if the entire amount and sometimes a part of it will be allocated within a year or two for the purchase, expansion or repair of another house or apartment (details in Article 21, Item 32).

Proceeds from the sale of real estate, cooperative apartments, etc., (regardless of when the house or apartment was purchased) are not included with other income. Proceeds from the former will now be taxed from the 1st of the year separately according to a flat rate of 10 percent.

What Are Proceeds?

Income is the surplus of proceeds over the cost of obtaining them. The law mentions nine groups of sources of income, among them being "other sources" (Article 10). These include: a service relationship; a work relationship (including in a cooperative); work performed at home (cottage industry); retirement pay or pension; self-employment or other similar activity; non-farm agricultural activity (e.g., artisan's shop, store, or warehouse); special areas of agricultural production (e.g., gardening, poultry farming); hiring, subcontracting, leasing, etc.; monetary capital and property rights; the sale of real estate, individually owned cooperative unit, single family home; the right to use real estate, etc.

Included in proceeds are also monies obtained by a taxpayer including foreign exchange as well as the value of services in kind (outside of the value of work uniforms, allowances of personal hygiene products, etc., which are completely exempt from income tax) and even other nonpayable services as, for example, the equivalent of rent when the object of such a service is the nonpayable rendering of access to housing (Article 11).

The law describes very precisely what is understood by the particular kinds of proceeds. Thus, the following are considered as proceeds from a service alliance, cottage industry, and cooperative work relationship: all monetary payment or salaries and the value of services in kind or the equivalent for such services and in particular basic wages, overtime payment, bonuses, supplements, and equivalent reimbursement for unused vacation time. In a word, practically every penny that an employed individual receives for his/her work (Article 12, Items 1-3).

Pension or retirement annuity is understood to mean everything that a retiree receives, including supplements. However, family assistance benefits, nursing care benefits, and assistance for complete orphans is not taxable. Other types of proceeds have been equally specifically described, including those derived from membership in agricultural cooperatives (Article 12, Item 6) and self-employment, as well as the carrying out of independent

activity similar in nature to the aforementioned (Article 13); from economic activity (Article 14), from special sectors, real estate (Article 16), monetary capital (Article 17), property rights (Article 18) and finally, from the sale of real estate and property rights as well as other things (Article 19), and even from other sources such as monetary assistance from social insurance (sick benefits, child care), some kinds of alimony, scholarships, donations, certain awards and bonuses, etc., (Article 20) as well as—attention, please—proceeds not covered by the disclosed sources.

What Are Acquisition Costs?

There is a standing, general principle that tax is paid on net income, i.e., after the deduction from income or the so-called costs, of acquiring it which can have an important bearing on the rate of tax paid. This includes all expenses that a taxpayer had to incur to obtain profits from a given source such as raw material, production material, employee expenses, advertising expenses and even publicity expenses, etc. Article 22, Item 3 lists these in a not very thorough manner. Other expenses can also occur. The taxpayer will have to show proof of their extent.

The law provides that such costs are also incurred by workers (e.g., for commuting expenses. The amount will be the same for everyone; it will be constant and will be 3 percent of the income making up the upper ceiling of the tax scale contained in Article 27, Item 1, i.e., Z648,000 annually and Z162,000 on a monthly scale. The cost of securing proceeds by, among others, inventors and similar creative individuals (50 percent) has been formulated in Article 22. The same article also defines the cost of obtaining proceeds by means of advertising and publicity; from literary, scientific, and artistic activity; the proceeds of "professional" athletes, experts, and arbitrators, as well as from commissions for works of art and placed orders (20 percent).

At the same time, Article 23 points out which expenses are not considered as income incurred costs. The specific principles of determining income are given in Articles 24 and 25.

As has already been mentioned, the basis for computing the tax is income, i.e., proceeds minus the cost of obtaining them. However, the provision in Article 26 envisages the responsibility of deducting from an income so determined a series of expenses incurred by the taxpayer for the good of the general public and for taking care of his own housing needs and for other purposes as well. What is at issue here are, above all, donations for scientific, charitable, and educational purposes, as well as for environmental protection; expenses incurred for rehabilitation and obtaining skills by the handicapped, etc. This provision also defines in detail the principles and allowable limits of deduction whereby at times it can be allowed to a lower extent than the actual incurred expenses.

One Scale... and Exceptions

The tax scale (Article 27) is very simple, and outside of a few exceptions it applies to all types of income regardless of their source. These exceptions are the lump sum tax set in the amount of 10 percent on monies obtained from the sale of real estate (homes, lots, etc.), cooperatives (apartments), and individually owned and garden plots that are intended for permanent use (Article 28, Item 2). As previously mentioned, the possibility of total tax exemption still exists if the taxpayer allocates these monies for the purchase, construction, repair, etc., of a new home or apartment (Article 21, Item 32).

Another exception to the rule is income in the form of interest on certain loans and dividends as well as remuneration for rendering assistance to the police and the UOP [Office of State Protection]. These are not combined with other income of the same taxpayer and are taxed at the rate of 20 percent (Article 30). The same kind of 20-percent collective tax will be paid by individuals who reside temporarily in Poland as experts of various types of joint ventures, foreign enterprises, etc., or by virtue of their creative work, participation in supervisory councils or the personal rendering of services, etc. (Article 29).

The scale of taxation is defined in Article 27. It has not been set permanently, and beginning in 1993 it will be subject to adjustments upward in keeping with the rise of the index of average remuneration in the national economy. The individual remuneration rates have a widespread range. A great majority of wages and salaries will fall in the group of up to Z64.8 million annually with a 20-percent tax minus the annual exemption of Z846,000 (on a monthly scale, this will come to Z72,000). Everyone can take this exemption regardless of the income amount or their source.

Payment on Account

The tax scale refers to income obtained during the entire fiscal year. The state budget, supplied by, among other things, public taxes must have a constant influx of revenues whereas the taxpayers as well are interested in paying gradually and not all at once. That is why, we will all make on account payments into this tax. The detailed principles of computing, collecting, and paying them have been described for the respective groups of taxpayers in Articles 31 to 44.

With regard to those who receive remuneration from employment ("ordinary" work relationship, service relationship, cottage industry, or cooperative work relationship), commission work contracts, etc., as well as pensions and retirement pay, the collection of taxes will occur in the form of deductions from the paid out amount due. The place of employment and retirement-pension agencies will be responsible for computing and collecting the monthly payments of taxes.

Let us consider this with respect to workers because these will dominate among those paying taxes.

With respect to workers, the principle stands that from January to November, 20 percent of the income (pensions, bonuses, etc.) obtained in a given month will be deducted. Income includes all proceeds (compare with Article 12) obtained by a worker during a given month after deducting the cost of obtaining this income. This deducted amount, as previously mentioned, comes to Z162,000 monthly per worker (details in Article 32, Item 2).

From a thus determined amount, Z72,000 is deducted, i.e., the monthly tax exemption amount allowed for all taxpayers in the income bracket of up to Z64.8 million (this tax exemption amount comes to Z864,000 annually). Attention: A worker can take advantage of this exemption if he submits a declaration that he does not receive any other income (compare with Article 32, Item 3). The point here is to eliminate the doubling of this exemption.

'Grossing'

By now, we could begin calculating the payment on account [installment] if it were not for the obligation to "gross" the income. It is assumed that workers, pensioners, etc., will not feel the impact of this tax, at least in the beginning. In keeping with Article 55, work establishments must raise remuneration due their employees for January to such a degree that after income tax deduction, they will receive no less than before the reduction (details in Article 55, Items 1 to 5). And analogous principle applies to retirees and pensioners (Article 55, Items 6 to 11). However, there is one important stipulation that will affect individuals with the highest income, i.e., a worker's salary as wages after the reduction cannot exceed 125 percent of the salary or wages before the reduction.

The minister of labor and social policy has been made responsible for defining the method of calculating wages and salaries, pensions and retirement pay, as well as social welfare benefits. This method has already been made public, although, an appropriate executive act does not yet exist. The standards of calculation differ from each other according to the level of earnings thus far.

For net earnings up to Z4.554 million monthly, the following standard rule will be in effect:

- Net earnings minus Z104,000—0.8
- For monthly net earnings falling in the Z4.554 million to Z5.2848 bracket, the standard will be as follows:

Net earnings minus Z660,600—0.7

Current monthly net earnings higher than Z5.2848 will be calculated according to the following standard:

Net earnings multiplied by 1.25

According to the Example

And now, a specific example of a payment on account [installment] that will be deducted from salaries or wages of Z1.5 million monthly:

1,500,000 minus 104,000 (0.8 = 1,744,500)

From this amount, we deduct the cost of obtaining these proceeds:

1,744,500 minus 162,000 = Z1,582,500

We calculate the monthly tax payment installment thus:

1,582,500 x 20 percent = 316,500

and from this amount, we deduct Z72,000, i.e., one month's tax exemption:

316,500 minus 72,000 = Z144,500

This is the amount of income tax that will be paid with current net earnings of Z1.5 million "grossed" according to the indicated standard up to Z1,744,500. It is easy to calculate that after its payment, a worker will receive the same net amount throughout this entire operation.

After a year, the payers (i.e., those who deduct the tax and pay it into the State Treasury, thus, work establishments, pension agencies, etc.) must conduct an annual tax clearing of accounts for every employee. A possible overpayment will be credited to the January installment payment. If it turns out to be rather high, it may be refunded in cash or credited to the next installments. It may also turn out that individuals with the highest income will be obligated to pay more. The additional payment may be collected all at one time or from the income of January, February, and March (Article 43, Item 3).

Workers, members of production cooperatives, retirees, and pensioners do not have to file conventional tax returns. They can be substituted with a declaration drawn up according to the set standard indicating that the given taxpayer does not have income other than from employment; that he does not incur expenses subject to deduction, and does not want his and his spouse's income to be taxed together. In such a case, the correct tax computation becomes the responsibility of the work establishment (Article 45 in connection with Article 37).

Other taxpayers are obligated to file returns with the Treasury department on income obtained in a given year by 30 April of the following year and pay during this deadline the difference between paid tax installments and the tax due (Article 45).

The law contains a series of rules and regulations that are to ensure the smooth transition from the currently still binding tax system to the system created by the presented law (compare Article 54 with Article 57).

The principles discussed here will go in effect on 1 January 1992. However, it is worth knowing now what awaits us.

We are publishing the full text of the law on pages IV, V, and VI of the ECONOMY AND LAW supplement.

EC Terms in Light of Polish Exports Viewed

92EP0001B Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 10 Sep 91 p III

[Article by Danuta Walewska: "Poland—EC: Not at Any Price"]

[Text] Polish politicians, diplomats, and economists who participated in negotiations in Brussels six times thus far firmly maintain their position that we will not join the EC at any price. The association agreement must be satisfactory to the Polish side and must present a potential for rapid economic development. As was anticipated, obtaining advantageous conditions for export of Polish agricultural articles, textiles, and metallurgical manufactured products presents the greatest problems.

As far as Polish agricultural products are concerned, we believe that a 10-year period of community membership—as planned—should be divided into two five-year stages. During the first stage, tariffs on goods imported from Poland would be eliminated according to agreed on annual quotas where the actual Conventional Tariff of the Community or tariffs set by the GSP [Generalized System of Preferences] amount to 20 percent or less. The remaining tariffs would be reduced to 10 percent or less by the end of this stage.

As far as equalizing payments are concerned, we also anticipate their further reduction, for example, those that have been decreased by 50 percent should be decreased 10 percent annually and eliminated entirely by the end of the first stage. All remaining payments should also be reduced.

During the second five-year period, all remaining tariffs and payments still in force should be eliminated. In our opinion, the size and period of these reductions should be negotiated toward the end of the first stage.

Poland also has a chance of becoming a competitive producer of processed agricultural products in the EC. Access of these products to the market of "the 12" is inhibited in two ways: as agricultural products and as industrial products. In negotiating export, we must therefore demand a double reduction: once from the farmers and a second time from the industrialists.

During discussions of access for our textiles to the EC market, we indicated many times that these articles (both fabric and clothing) should be subject to the standard liberalization applied to industrial goods. Or—to an immediate elimination of all quotas and removal of tariffs within the next five years. Poland's participation in EC imports amounts to only two percent of the total; even with our greatest effort, there is no chance that this minor share would threaten the interests of local producers. However, we recognize the arguments on the other side of the negotiations table and are ready to sign

an agreement for the next year on voluntary export limitations. We would, however, set the following conditions:

- This agreement cannot be extended;
- Quantities of manufactured products will be significantly more limited;
- Quantities of refined raw materials will also be more limited;
- Existing limitations will be applied flexibly.

This will apply to textiles; as far as other manufactured products are concerned, we believe that the mechanisms of liberalization proposed by the EC are a bit conservative and artificially complicated. Even import of goods that Poland exports in trace amounts is limited. In our opinion, the agreement under consideration could be simplified in many cases without affecting EC economy. Meanwhile, as far as metallurgical products that are included in the EC Coal and Steel policy are concerned, we think that these should be subject to the principles of universal liberalization mechanisms, therefore no other protocols can be justified in their case. We must add that exactly in the case of steel, which is considered by the EC to be one of the sensitive products (but at the same time, its production is very detrimental to the environment), there were practically no problems with obtaining advantageous conditions for our production.

Neither did we have serious difficulties with obtaining acceptance of our conditions in the area of services. The EC agreed to according Polish companies and citizens the right to undertake management activity. This is understandable since EC dominance in this area is enormous. Our only difficulties are in the areas of construction and transport—and this is also understandable. We are not competitors for EC bankers in financial services, but with low wages in our country, we can successfully threaten their construction and transport workers. We believe, however, that in the final agreement, the balance in our favor should be noted.

Proposals of financial cooperation, which we believe should be aimed at reducing the economic distance between our country and the EC, are inadequate to the goals of the agreement and disproportionately limited with respect to its other decisions. The negotiators proceed from the premise that the EC should treat this as an investment in its own economic development.

As we have written more than once, everything points to the fact that changes in Middle European and East European countries favor the development of the western part of our continent. That is, they favor it in the general sense of that word. It is true that when we are admitted to that market, some prices that are artificially supported and maintained may drop. We insist only on being admitted to competition. Certainly, in the last analysis, the best will win.

This is a general outline of the stipulations that Polish negotiators will bring to the Brussels in less than two weeks. The results of the coming seventh round will

depend to a large extent on the flexibility of their partners. The Polish delegation has repeated many times that it has no more room to maneuver because it is up against a wall.

Subsidies Ended for Coal Mining

92EP0017D Warsaw RZECZPOSPOLITA
(ECONOMY AND LAW supplement) in Polish
14-15 Sep 91 p II

[Article by Katarzyna Jedrzejewska: "End of Subsidies—Rise in Cost of Coal"]

[Text] The revision of the budget law envisages a 1 trillion 900 billion zloty reduction in the subsidy for coal mining (the law provided 7 trillion zlotys [Z] for this year). In practice, this would mean that there will be no coal subsidy from October on, because that is precisely how much remained to be paid this year.

Two-fold consequences of such a cut are foreseen in the Ministry of Industry and Trade. First of all, the financial situation of the mines will become even worse. When the 7-trillion subsidy was granted, it was anticipated that the deficit in the mines will amount to 1.5-2 trillion annually. After seven months we know that it has already exceeded Z900 billion. On the basis of the figures available now, it can be expected that by the end of the year 36 mines will be operating at a loss, and 31 will show a favorable balance sheet. Of the latter, those showing a plus, scarcely 12 mines—according to forecasts—will be able to cover their obligations to the State Treasury (i.e., income tax and dividend) out of profits. All of the remaining mines, i.e., 17 showing a plus balance and 36 a minus balance, would be Z2 trillion short. Let us remember that in these estimates a 7-trillion per year subsidy was taken into account.

The second effect of the subsidy cut is the need to change the size of the subsidy to a ton of coal sold. In short, this means an increase in its price. It appears that the 5-percent monthly price increase, envisaged at the beginning of the year, will not cover the reduced subsidies. If this indicator were to remain, then with the subsidy cuts the deficit in the mines could grow even to Z4 trillion.

The analyses made by the Ministry of Industry and Trade show that in order to compensate for the subsidies, the price increase would have to be not 5 percent, but 13 percent.

We already know that the Ministry of Finance will not agree to such a variant. The 5-percent indicator now in effect is the maximum allowable by the treasury offices. We know that the buyers often do not accept such a price rise and the mines increase the price of coal by only 2-3 percent a month. According to the Ministry of Finance, the 5-percent price rise is calculated specifically to cover the reduced subsidies.

On Friday, working talks were held between representatives of the Ministries of Industry and Finance and the Hard Coal Agency.

Tragic Financial Situation in Construction Field

92EP0017C Warsaw RZECZPOSPOLITA
(ECONOMY AND LAW supplement) in Polish
12 Sep 91 p II

[Article by Malgorzata Szyszlo: "Construction Industry Complaints"]

[Text] The construction firms are dying. Their files of orders are extremely thin and their financial situation is getting worse and worse. Skilled workers are leaving, with many of them changing vocations. Construction of technical infrastructure buildings is at a standstill. The reason—lack of money to continue the work.

Market mechanisms in the construction field are functioning badly. This applies also to auctions, which often are a fiction, as shown by the annexes to the contracts, which are already prepared the next day. The waiting period for housing is getting longer. Rents are rising from one month to the next. More and more families are not paying rent or the interest on credits drawn to build housing. Despite numerous promises, the problem of financing and crediting construction still remains unsolved. The birth of the directive on this matter is very difficult.

A packet of draft laws is lying in the Sejm, and unless these are passed, housing will not move off dead center. The "anticrisis" law—on housing and on tenant protection—is particularly important. Furthermore, without state intervention, meaning assistance for construction, any increase in the number of completed dwellings is out of the question. The rules for pricing the assets of privatized enterprises should be changed so that the workforces could really take them over.

That, very briefly, is how the participants of a meeting, arranged for the 10th of this month by the National Housing Movement and NSZZ Solidarity's National Construction Coordinating Commission, talked about the situation in construction. Adam Glapinski, minister of Land-Use Management and Construction, and representatives of the Ministry of Finance, the Polish Real Estate Owners Union, and the Federation of Consumers, were invited to the meeting.

During several hours of discussion directed at the government, many critical comments were made. It was accused of not taking effective action to solve the housing question. Minister Glapinski took the brunt of the criticism. He explained that the problems of construction should be looked at through the prism of all of the economic realities. If the economy is folding and not developing, he said, if the national income is shrinking, no field can flourish. Unfortunately, this also affects construction. Referring to the problem of preferential credits for construction and the rules and procedures for

buying out what is due the banks by virtue of interest on housing credits, he said that the draft directive on this was dropped from the agenda of the meetings of the government several times already. Negotiations are still underway with the Ministry of Finance as to detailed solutions. They pertain to the possibility of committing funds from the state budget for this purpose. In order to give to someone, you have to take away from someone. He also added that the budget for next year may be even smaller if the recession in the economy continues. Insofar as the question of the tragic financial situation of the construction firms is concerned, the head of the ministry believes that decisions on a wide scale are needed, including solutions to the problem of the indebtedness of all state firms.

Progress Report on Industry Enterprises

91EP0711C Warsaw RZECZPOSPOLITA
(ECONOMY AND LAW supplement) in Polish
28 Aug 91 p IV

[Article by Malgorzata Kokocinska: "The Demand Barrier Touches Everyone"]

[Text] This article constitutes a synopsis of a study report on the economic situation in the Polish processing industry using the economic state of affairs test conducted by the Institute of Economic Theory at the Academy of Economics in Poznan. (We reported the results of the Poznan AE [Academy of Economics] studies on the situation of enterprises in the four basic areas of the processing industry in our publication of 21 August of this year.)

Recession in the state enterprise sector is widespread in nature. On the basis of the economic situation indicators (graphs 1 to 3 [not reproduced here], which are the mathematical mean of synthetic indicators for the second quarter of 1991 as well as projection indicators for the third quarter of 1991, it may be observed that its [recession] deepening has a differentiated course in the various groups of enterprises.

Taking into consideration the index value, we see that large enterprises with more than 1,000 employees continue to be in a relatively worse situation, followed by small enterprises (up to 400 employees) and medium-sized enterprises (with 401 to 1,000 employees). Taking into account the direction of the curves from the third quarter of 1990 on, during which according to subjective assessments of enterprises, the chance for a good economic situation appeared, it may be observed that economic activity in medium-sized enterprises is weakening at a steady rate.

In large enterprises, a radical decline in the economic situation occurred during the first quarter of 1991. In small enterprises, this occurred during the past quarter. As a result, the policy of limiting demand has brought about a similar state of affairs in all groups of enterprises after the first six months of 1991. From information obtained in the studies, it turns out that

approximately 80 percent of the respondents are not capable of fully financing current production, and the same number of those surveyed also estimate that the portfolio of placed orders is lower than production capacity. A year and a half after the introduction of systems principles, a situation has developed in which the majority of enterprises, regardless of their size, are at the threshold of bankruptcy.

More specific information on the integral elements of the economic situation in large, medium and small enterprises is presented below.

Large Enterprises

In all groups of enterprises, a negative assessment of the current economic situation is growing stronger. In comparison with the first quarter of 1991, the increase in negative assessments in the group of large enterprises came to 10 points and attained a level of 64.8 points on a 100-point scale. Eleven percent of enterprises expect their economic situation to improve during the third quarter of 1991 and this is relatively the highest indicator of optimism among the groups of large, medium, and small enterprises.

The problem of hidden unemployment is definitely growing. Already one of every two enterprises assesses that the employment level is too high in relation to need. In large enterprises, employment ratios are the worst of the three analyzed groups. Overemployment is the result of a drop in production progressing from quarter to quarter. During the second quarter of 1991, as much as 50.4 percent of enterprises felt that the volume of sold production was lower than during the first quarter of 1991. An analogous index for the period from the first quarter of 1991 to the fourth period of 1990 came to 45.6 percent.

A comparison of these two indexes, although very negative, with medium-sized and small enterprises reveals a gradual slowing of the drop in the rate of production in the group of large enterprises. This may also be an indication of drawing closer to the margin of economic existence. In addition, supplies of manufactured finished products, although higher, have increased to a smaller degree (by 10 points) than in medium and small enterprises.

The demand barrier, which again rose suddenly during the first quarter of 1991, continues to reveal an upward trend. In the assessment of as much as 77 percent of large enterprises, the portfolio of placed orders during the second quarter of 1991 was lower than the current production and only 5.8 percent of enterprises were operating under conditions of higher demand. The consequences for the financial situation of enterprises manifested themselves in an increase, although by only 2 percentage points, of those enterprises which believe that the chances for financing the current needs of enterprises are too low. Following a rapid rise in negative assessments toward the end of the fourth quarter of 1990 and the beginning of the first quarter of 1991, the index has

maintained itself at a level of 83.3 percent. This is an indication of drawing nearer to the threshold of bankruptcy by the majority of large enterprises.

Medium-Sized Enterprises

In this group of enterprises, the negative assessment of the current economic situation is close to that of large enterprises (63.0 percent). However, the increase in negative assessments in comparison with the first quarter of 1991 constitutes the biggest jump and comes to 17.5 points. The percentage of enterprises that during the third quarter of 1991 expect to see an improvement in the economic situation has declined considerably. This positive outlook applies to only 7.4 percent of this group's respondents.

The problem of hidden unemployment rose to a similar degree from quarter to quarter. As much as 42.9 percent of medium enterprises assess that the employment level is too high in relation to the need: During the first quarter of 1991, this applied to 31.3 percent of enterprises. As in large enterprises, there is a close correlation between this phenomenon and the progressive drop in production, which in the case of medium enterprises occurred to a greater extent in relation to the first quarter of 1991 than in the case of large enterprises and in the second quarter of 1991 encompassed nearly half of the population (47.8 percent).

At the same time, an increase in manufactured final products occurred at a faster rate than in large enterprises, which is an indication of growing problems with the sale of the enterprises' own products. Proportionately to the study group of enterprises, a similar number of large and medium enterprises has warehouses packed full. In the case of medium enterprises, this pertains to 63.4 respondents. Medium enterprises and similarly large enterprises gave a very pessimistic assessment of the portfolio of placed orders during the second quarter of 1991; 76.7 percent of the respondents in this group stated that it was lower than the current production potential. As a result of the unused production potential and the continuation of overemployment, the problem of financing current enterprise needs is growing.

In the group of medium enterprises, the index defining the percentage of enterprises which according to their own assessment have financial means too small to assure current operations comes to 79.1 percent and is only 4.2 points lower than that of large enterprises. Its rate of increase in relation to the first quarter of 1991 is the highest of the three analyzed groups. Even though, the situation of medium enterprises in light of the synthetic index of the economic state of affairs continued to be relatively better during the second quarter of 1991 than that of both large and small enterprises, it has, nonetheless, been characterized by a systematic drop in economic activity beginning with the third quarter of 1990.

Small Enterprises

In this group of enterprises, a radical worsening of opinion on the current economic situation has also occurred. As much as 58.1 percent of the respondents feel that it is bad. In comparison with large and medium enterprises, there exists a several point dominance as far as an enterprise's assessment of its own economic situation as satisfactory. Such opinions were formulated by 36.8 percent of small enterprises as well as comparably 31.3 percent large and 31.5 medium enterprises during the second quarter of 1991.

Of the differences that may be observed in the particular straight indexes, the relatively correct ratio of employment stands out. The number of small enterprises which assess that the employment level is too high is approximately 50 percent lower than in the group of large and medium enterprises. Thus, the percentage of enterprises that assess their employment level as being in line with the needs is decidedly larger, i.e., 64.7 percent as opposed to 46.7 percent in large enterprises and 50.9 percent in medium enterprises.

The remaining indexes do not reveal any substantial differences. As in the case of large and medium enterprises, approximately half of the small enterprises also recorded a drop in production during the second quarter of 1991 and only about a 16-percent increase in the volume of sold production. The surpluses of finished products that burden enterprises are somewhat smaller in the group of small enterprises in comparison with the remaining groups. Also, the possibilities of financing current production are several points higher in this group which most likely is associated with the aforementioned greater employment efficiency.

In general, however, small state enterprises did not maintain the level of economic activity which from the fourth quarter of 1990 to the first quarter of 1991 was quite stable. The primary reason for this is the demand barrier. During the second quarter of 1991, the portfolio of placed orders for products from small enterprises was in 80.7 percent of the cases lower than the current production potential. In comparison with other groups of enterprises, this was the worst index. Also, the outlook from the aspect of demand and production potential is relatively the least favorable for small enterprises.

Agency for Industrial Development Profiled

92EP0017B RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 16 Sep 91 p 1

[Article by Ewa Zychowicz: "How To Help the Enterprises"]

[Text] One of the institutions established to assist in restructuring the Polish economy is the Agency for Industrial Development [ARP], functioning in the Ministry of Industry and Trade. It concerns itself, among other things, in the situation of those plants and industrial regions which are having the greatest difficulty due

to the reduced demand for their products. This applies, e.g., to Ursus, Star, and the regions threatened with the largest unemployment: Lodz and Walbrzych. According to Grzegorz Skarzynski, ARP president, his institution is an indispensable tool of state intervention.

The agency is a member of an intervention group appointed to save Ursus. A preliminary examination has shown that assistance given this factory should take three forms: reducing its production capacity, rebuilding the market for tractors, and establishing relations with creditors.

In the first case, the size of production should not, in the agency's opinion, exceed 25,000 tractors a year, because that is what the market demand is at present. Rebuilding the market should tend in the direction of developing alternative ways of purchasing tractors, including through use of credit. In the area of relationships with creditors, new sources of financing must be sought. ARP, together with other institutions, including the Polish Development Bank and the Ministry of Industry and Trade itself, is willing to finance a restructuring program, but President Skarzynski says that it is premature to talk about specific sums because talks between the factory, the banks, and the agency, are underway.

The involvement of the agency in the Starachowice matter is conditioned upon the position that the creditors take. The Star accounts have already been unblocked, and it is certain that if a foreign investor is found, the money will not go for payment of debts but for development of the enterprise. A draft agreement has already been prepared, which has yet to be approved by the supervisory board of ARP, under which Stara will be granted a loan of over 40 billion zlotys [Z]. The agency will also support the factory's efforts to obtain credit amounting to 1.1 billion English pounds. This money will be earmarked for the purchase of Perkins engines for half-ton Star 742 trucks, for which there will undoubtedly be a large demand. At the same time, talks are underway with banks on the subject of exchanging the factory's debts for shares in a company. In the opinion of the agency, Star is on the road to recovery.

On Monday, 9 September, an agreement as to the scope of the agency's regional activities in Lodz was signed, which will allow it to involve itself in specific projects aimed at improving the condition of enterprises. It is still difficult to talk about details because the matter is too new, but judging from the fact that the new minister of industry and trade, a woman, is personally interested in the Lodz problems, money will surely be found. At the moment, thought is being given to creating a trusteeship consortium in this area, with the participation of regional banks supported by the Ministry of Industry and Trade and ARP. But what is most important is that the regional institutions function efficiently so as to save the local enterprises without looking to the central authorities for assistance. The concept of the functioning of a trusteeship consortium will be presented in two to three weeks.

Two regional agencies have already been formed in Walbrzych Voivodship: in Walbrzych and in Nowa Ruda. A restructuring program is being developed for the porcelain factory in Ksiaz, with the active participation of ARP, which is financing it. The Walbrzych voivode has announced an auction for the sale of this factory and financial negotiations are taking place. Here, too, there will probably be a type of trusteeship consortium with the participation of banks and ARP. This consortium intends to bid at the auction, and if it wins, it will allocate money to save the enterprise.

Machine Tool Industry Deemed Highly Competitive

91EP0711A Warsaw *RZECZPOSPOLITA (ECONOMY AND LAW supplement)* in Polish 29 Aug 91 p 1

[Article by Ada Kostrz-Kostecka: "Privatization of Machine Tool Factories: A Smart Industry but Bare"]

[Text] Company Assistance Limited [CAL], a Polish foreign-consulting firm, has already worked on the shoe industry; now, it has prepared a study of another sector—the machine tool industry. It was presented on the 28th of this month [August] during a press conference at the Ministry of Ownership Transformation.

Machine tools constitute a complicated manufacturing process. No wonder, therefore, that German and Japanese firms dominate in their production. And because, besides the 15 basic types of these products, there are also "subtypes," i.e., highly specialized groups of machinery—this industry is developed in many countries of the world. However, these factories are, in general, small.

Enterprises manufacturing machine tools must have qualified workers at every stage of production, particularly in the area of technological development, as well as marketing. Besides knowledge, extensive experience is also necessary.

In the face of these high expectations, the Polish machine tool industry presents itself well and this is not according to an industry representative who could be suspected of subjectivism combined with patriotism but according to objective, foreign experts. However, high marks were given only for product quality. Things are considerably worse when it comes to the situation in which manufacturers find themselves.

The experts evaluated 28 of the 30 plants belonging to this sector. They concluded that one-fourth of the manufactured products are fully competitive with the West in terms of technology, whereas of the remaining part, as much as one-third, although somewhat outdated, is capable of being modernized with rather small financial outlays.

We also have very good specialists in the manufacture of machine tools. Moreover, the low level of wages in

Poland gives our factories a 30-percent price advantage on world markets despite a generally low productivity.

However, many of these factories were formerly exclusively oriented toward CEMA clients. Now, as a result of losing them, they do not have regular clients abroad. And because marketing and quality of service are, as usual, neglected in our industry, this is reflected in the financial results. After analysis, it turned out that not even one of these enterprises has a positive money flow, whereas 12 firms have a zero flow with the remaining ones with negative results, i.e., they are in debt.

With such a diagnosis, the strategy for privatization is as follows: Investors are needed, both our own and foreign, from the machine tool sector as well as representatives of investment funds. That is why the decision was made to come out with an offer for foreign capital during various kinds of negotiations.

According to the experts' assessments, in the case of the five best, most efficient enterprises with a good technological base, small investment outlays are needed to make full use of the production potential and if they do not have considerable debts, they can manage by themselves (example: Remo—Warsaw). The second group in which the ability to make it is evaluated at 25 to 75 percent consists of 18 factories which need a partner if they are to make full use of their potential (typical example—Rafamet). A partner is even more important to five enterprises included in the third group (example: the machine tool factory in Tarnobrzeg) because without assistance from the outside, they are threatened with bankruptcy. Their chances for independent survival have been estimated at less than 25 percent.

Condition of Chemical Industry Described

92EP0001A Warsaw *RZECZPOSPOLITA (ECONOMY AND LAW supplement)* in Polish 11 Sep 91 p IV

[Article by Marian Strzelecki: "The Future of the Polish Chemical Industry"]

[Text] During the first half of the year, of 22 enterprises in the socialized chemical industry in Lodz Voivodship, 18 showed a net profit and four showed losses. In light industry in the voivodship, this ratio was 55 to 83.

These economic indicators in themselves place the chemical industry in the Lodz region in a better situation than the textile or electric machine industries.

The Economics Institute of the Chemical Industry prepared a report pertaining to the situation of the chemical industry in the Lodz region against the background of general conditions. The authors' group in this institute had previously prepared introductory information pertaining to the chemical industry in the Lodz region against the background of global developmental trends and systemic conditions.

According to the analysis made by the authors of this report, the world chemical industry is marked not only by high developmental dynamics, but also by rapid technological and production changes. Technical progress in these processes is an exceptionally important factor; for this reason all highly developed countries earmark a significant percentage of profits for financing research and development and for modernizing the industry. For example, in 1980-85, in EC countries, these expenditures increased by 20 percent, while in Poland they dropped by 54 percent.

Actually, the most important global directions that research in chemistry is taking is research in the area of specialized substances for other industries, biochemistry and biotechnology, pharmacology, and environmental protection. In Poland, it is true that research by way of verification is emerging, but this will not take the place of the required coordination between scientific research activity and specific industrial policy. Otherwise the selection of research subjects may become fortuitous and ineffectual. Lack of funds for research and development results in stagnation in this area, and the technological gap between world chemical industry and that of Poland becomes greater.

The authors of the report believe that "the real state of this industry in Poland is not good; it is marked specifically by a high degree of decapitalization of production means and petrification of an outmoded production structure and is an energy- and materials-intensive as well as burdensome technology. In the product structure, chemistry of heavy raw materials and products that are minimally processed dominate, which also affects the export structure."

Meanwhile, worldwide, the development of highly processed products is preferred. In developed countries, the twilight of traditional, high-tonnage chemistry is apparent. There, such branches as pharmacology, chemicals for plant protection, modern dyes and lacquers, biotechnological products and stains, and highly processed specialized substances are being dynamically developed.

Basically, the chemical industry located in the Lodz region represents the branches that are preferred worldwide. An analysis of the economic results of the last few months of this year indicates that the effectiveness of the chemical industry in the Lodz region, in comparison with other branches of Polish industry, is relatively good.

However, the actual systemic solutions are causing a shortage of funds to meet the requirements of development and restructuring even for enterprises that are still showing fairly good financial results. In a situation of progressive decapitalization of durable property of the chemical industry, no signs of its modernization and a general insufficiency of funds, the authors of the report believe that a greater involvement of the state in realizing developmental goals is indispensable. Working out a well-thought-out industrial policy is desirable,

including the development and restructuring of specific lines and branches of industry. The state fiscal policy should not foreclose the developmental potentials of industry, but should create incentives for those processes and for broadly understood restructuring. Today our own inventions and our own means do not ensure development of areas recognized as modern and promising for the future with export potentials. In other words, without institutional assistance for selected areas of chemical production (future and potentially progressive) that promise a solution to the impasse in specific enterprises, changes desirable for the economy cannot be made in the chemical industry.

The size of budgetary encumbrances in state chemical enterprises in the Lodz region varies. These encumbrances amount to from 44 to more than 90 percent of gross profit. If the enterprises cannot improve their financial results by the end of this year, their potentials for realizing development will decrease. Revoking income tax investment credits for investors in ecological enterprises and for manufacturers of pro-ecology equipment also plays a part in inhibiting developmental trends.

In a situation of price barriers and little possibility of decreasing other types of costs, overestimating durable property and decreasing the period of amortization has a greater negative impact on costs and consumes profits.

Despite the critical diagnosis, the authors of the report do not rule out developmental opportunities for the chemical industry, but they see changes in external conditions as the key to initiating this trend.

Poor Financial State of Railroads Noted

92EP0017A Warsaw *RZECZPOSPOLITA (ECONOMY AND LAW supplement)* in Polish 16 Sep 91 p II

[Article by W.M.: "Poverty-Stricken Railroads"]

[Text] The railroads live from one day to the next. They pay their most urgent bills out of cash-box receipts. That is what the deputies to the Sejm Commission on Trade and Services learned. Aleksander Janiszewski, general manager of the Polish State Railroads [PKP], emphasizing that the railroads are not asking for additional subsidies, described the picture of an enterprise struggling to survive.

As a reminder, subsidies for PKP were cut from 17 to 10 to 6 to 3.8 trillion zlotys [Z], of which the railroads received Z2 trillion 23 billion. They would like to get 900 billion due them still this month, and the remainder in installments to the end of the year.

The enterprise is short Z2 trillion to balance its budget. Because in April a tariff increase was not put into effect, the firm "lost" 900 billion. It was estimated that the railroads will haul 730 million passengers, but it turned out that it hauled only 655 million. Everywhere in PKP, it was explained to the deputies, drastic

economies were introduced. Repair and construction work was reduced to the minimum. But when the contractors finish jobs, they bill for what was done. This is how the bills accumulated. On the other hand, the metallurgical plants are not making their payments and neither is the Soviet Army.

The deputies asked about getting credits from the World Bank, but were reminded by PKP representatives that these cannot be used for consumption. They wanted to draw credits, which are expensive, but still cheaper than interest. Unfortunately, they were not successful. Despite the fact that the state banks have funds, they lack credit limits. In talking about all of this, the railroads' representatives asked for a "light sentence," receiving from their listeners an expression of sympathy and frustration.

During the discussion it was agreed that PKP must "go on a diet." And this will happen. By 30 December, 72 factories will "go," together with 75,000 employees. Janiszewski reported that the enterprise is reducing employment by a total of 42,000, excluding closures of backup facilities.

Service on 611 km of unprofitable lines was discontinued "lege artis" [according to the law of the trade], as it was described, but another 5,000 km should be eliminated as soon as possible. Although the railroad authorities understand the needs of the people, they cannot subsidize commuting to work—and that is how the voivodes explain the matter when they do not agree to "rolling up the rails"—because they simply do not have the money.

To put it briefly, it is a vicious circle. But the number 13 is unlucky, and in addition, it was a Friday. The deputies did not solve the problem about where to get the trillions of zlotys the railroads need to survive (even, initially, at least one little billion!). As they summed up their service, it is very unpleasant to share poverty.

Deputy Aleksander Grzywacz, who conducted the meeting, suggested that the firm quickly specify which lines are unprofitable and must be eliminated and submit the necessary proposal to the government and the local authorities. He further suggested that reduced-fare or free passenger travel privileges be investigated and the consequences ensuing from this be pointed out.

Restructuring of Railroad System Noted

91EP0711B Warsaw *RZECZPOSPOLITA (ECONOMY AND LAW supplement)* in Polish 29 Aug 91 p I

[Article by Wieslawa Mazur: "Train Transportation: Worse and More Expensive"]

[Text] The railroad industry is preparing an unwelcome "gift" for passengers in the form of fare increases and a large-scale shutdown campaign. From 15 September 1991, not only will a train ticket cost 50 percent more but at the same time there will be far fewer trains.

Among others, 52 long-distance trains on domestic as well as international lines will be eliminated and the scheduled runs of a dozen or so express trains will be cut. Unfavorable changes will also occur in suburban transportation even in such large urban agglomerations as Warsaw, Katowice, and Gdansk. However, these changes will not be as notable as elsewhere.

This information was given to reporters on the 28th of this month [August] by the managing director of PKP [Polish State Railroads], Aleksander Janiszewski and his assistant, Marek Raczkiwicz. Unfortunately, the railroad industry has no other options. Recently, an additional 2 trillion 150 billion zlotys [Z] were cut from an already severely reduced subsidy in relation to the needs (from Z17 trillion to Z5.5 trillion). On the other hand, railroad lines for passengers are growing shorter by 3,600 km.

Following September's fare increase, one will have to pay Z128 per one km of second class passenger train travel. On the other hand, the real cost of such a trip comes to Z350. In other words, such a significant increase for passengers means little, in practice, for the railroad industry. Someone has to pay the difference.

Prime costs should be lowered. However, according to the general manager's office, such an enterprise as the PKP cannot accomplish this within a month.

Restructuring and organizational activity has been undertaken. For example, for repairs and infrastructure, outlays to the order of Z800 billion have been cut, whereas Z450 billion have been cut from capital outlays. As planned, by the end of this year another 42,500 people will be laid off. More layoffs are not anticipated.

However, a subsequent request to be submitted to the government for approval of another train fare increase is not being ruled out.

Regional railroad administrations have received orders to reduce the number of local trains in service. The regional "Central" and "Eastern" administrations must reduce by 12 percent the so-called train kilometers (awful term): the "Southern" line—18, "Slaska" [Silesian]—13, "Northern"—18, "Dolnoslaska" [Lower Silesian]—20, "Western"—20, and "Pomorska" [Pomeranian]—25. We will not know until in practice how many of the 7,600 trains in the system will drop out and how many will shorten or cut their routes.

In this situation, the news that we will travel by train faster and more comfortably to Berlin, as early as this year yet, did not evoke enthusiasm. During the meeting, it was also reported that shortly it will be possible to reserve seats from Warsaw for travel by the train of one's choice throughout West Europe by using the international EPA reservation system.

At the same time, it is also worth noting that from 15 September of this year, the following trains, among others, will cease service: trains No. 12125 operating between Warsaw and Lublin and No. 21124 from Lublin to Warsaw; No. 13105 between Warsaw and Krakow, No. 3301 between Warsaw and Lodz and No. 30304 from Lodz to Warsaw; No. 13501 between Bialystok and Krakow and No. 235/54002 Gdynia—Budapest line. The express train "Tatry" from Warsaw to Zakopane and Nowy Sacz will also discontinue service, whereas the express trains "Krakus," "Gornik," "Pogon," "Chemik," and "Neptun" will make their runs only from Monday through Friday.

Croatia Urged To Define War Goals, Unify Forces

92BA0037B Zagreb DANAS in Serbo-Croatian
1 Oct 91 pp 18-19

[Article by Darko Pavicic: "The Unleashed Spirit of Lebanon"]

[Text] Utterly undefined political objectives, beating about the bush and defensiveness in the decisive moments of defense, and the obvious loss of Croatian territory were sufficient arguments for the opposition to answer the government by establishing its own armed forces. Thus, recently, although as formations they belong to the National Guard Corps [ZNG], party armies have become distinguished on Croatian battlefields, like, for instance, the Croatian armed forces—an army consisting of members of the Croatian Law Party [HSP]. Reports are surfacing in the public about actions of the "three-man commando teams of the Croatian People's Party [HNS]" and about territorial defense personnel organized by the Democratic Reform Party [SDP]. The involvement of a variety of armies, even private armies, has in a moment resulted in an absurd situation: All those formations, although they are fighting for Croatia, are operating counterproductively on the front, because they are operating in an unsynchronized way, independently, and altogether on their own. In the words of Dobroslav Paraga, president of the HSP, their army, the Croatian armed forces, numbers more than 10,000 men under arms. "Our party has a tradition of combat activity, of waging liberation wars against foreign powers and non-Croatian authorities over the last 130 years," Paraga told us. "We have been saying for the last year and a half that we need to prepare a sound resistance. From the outset we have been indicating nonviolent resistance, but also with weapons if necessary," Paraga says.

The young men in the camouflage uniforms bearing the words "HOS [Croatian Armed Forces]—Prepared for the Homeland" and the small insignia of the HSP emerged in public for the first time during the attack of the Yugoarmy on Slovenia, when some 500 of Paraga's people voluntarily went off to the war in Slovenia. Dobroslav Paraga says that he is still collaborating with the Slovenes, from training to armament, and that in practice the "HSP converted to work under wartime conditions, defining the situation that came about as total warfare against Croatia." Most of the members of the HOS are at the front at the moment, some in reserve, and all are volunteers of the National Guard Corps, although they say that they try to preserve their complete autonomy at every moment. They also say that they have acquired their complete equipment, uniforms and armament, themselves, without any help from the state at all.

The autonomy which the HOS forces strive to preserve is precisely what is most bothersome to commanders of the National Guard Corps, even though Paraga's lads are in the first combat line of the front. They are being allowed their own actions less and less because quite often they

do not comply with any truces or agreements that have been signed. Thus, the HOS-ites are criticized for unnecessary provocations, and we were given the example of the attack on the garrison in Borongaj in Zagreb, which was done without authorization or agreement. This did more harm than good, because the army in the garrison responded to the fire from light infantry weapons with artillery against nearby Zagreb settlements.

"I feel that party armies are at the moment and everywhere unnecessary, a solution that results in disaster and could bring its highest cost after the war is over, but also during the war itself," we were told by General Ivan Rukavina, military strategist of the Croatian People's Party. "The Croatian People's Party is therefore resolutely opposed to any party army, although it is aware that the defense of Croatia still needs to be improved. It is true that I spoke about the need to send commandos into the enemy rear, but I can deny any stories about any kind of 'three-man teams' of the Croatian People's Party or whatever you call them. Croatia needs a general staff, order and discipline, a hierarchical ladder, and only then is it possible to wage an authentic and organized liberation war," Gen. Rukavina says.

The recent formation of the General Staff for Defense of Croatia has yielded the first results precisely concerning that very sensitive task of organizing various Croatian liberation armies. For example, in Vukovar until recently there were five or six local commanders who each had a few people under his command, and among them there was more competition than true cooperation. The situation was similar in Osijek, in Banija, especially at the beginning, when regular police, police reserves, special police, the ZNG supplemented with reservists, and snipers would all turn up at the same place—each on his own mission and under his own command. The dilemmas of various commanders as to which of them is commander in chief in the field have been resolved only with establishment of the General Staff.

The Democratic Reform Party became involved in putting new life into the conception of territorial defense, especially in those regions where it took power in the election (Rijeka, Crikvenica, most of the Istrian opstinas, Delnice, Makarska, Vrgorac, and Ploce). For example, those units were also involved in the actions in Ploce. "Those units are not comprised exclusively of members of the SDP. All citizens are represented, because as a multinational party we have been exceedingly interested that the defense be the business of all the citizens of Croatia regardless of their party, nationality, or any other background. There are a large number of members of our party today in the officer corps of those formations, but those are not party formations," Stipe Ivanisevic of the SDP said in answering the question of whether members of the SDP make up those units.

The Response of the General Staff

The formation of party armies or indeed groups of armed men led by local sheriffs, are in part a response to

the policy of the ruling party up to now, which appropriated the aggression against Croatia to itself, at the outset arming only members of its own party and installing incompetent people—those who came out early for the party—to key posts of leadership.

“Defense, the waging of war, is a professional job, it cannot be left to dilettantes, people who do not know the soldier’s job. Professional military matters must be decided by competent people trained to do this and with the appropriate professional experience,” Prof. Stipe Ivanisevic says.

In the HSP, they particularly emphasize the high morale of their fighters, attributing it primarily to the objectives for which they are fighting. “The people in this party believe only in the Independent State of Croatia and in restoration of those rights to the Croatian people which they have already had once in this century. Without a Croatian state, the Croatian people will never have freedom, and that is the motivation which these people have. They simply believe that it is also Croatia in Trebinje, in Bileca, and in the Sanjak, within its natural and ethnic borders. And then I must say that many active members of the ZNG are members of the HSP, and some of them frequently turn to us because they have been unable to get certain things from the government, even uniforms or weapons,” we were told by Dobroslav Paraga.

However, we asked Paraga how he expects relations to evolve between his army and the others in Croatia after the war, and will not Croatia be Lebanonized by the legalization of party armies? “When the state of Croatia is independent, it would be absolutely intolerable for the parties to fight with their own armies for their political goals and rights. We have no intention whatsoever to keep an army that would settle accounts with political opponents, as, for example, accounts were settled with our vice president Ante Paradzik. We responded in these wartime conditions and answered the call to duty, but under peacetime conditions we would retain only one unit for security, but by no means an entire army. The Lebanon in this part of the world has been caused by Serbian expansionism and Croatia’s unpreparedness to take up that challenge. We are here to put an end to that Lebanon, not to perpetuate it,” Dobroslav Paraga said.

An official reaction to the establishment of party armies has come from the Ministry of Defense and General Staff of the armed forces of the Republic of Croatia, and it states explicitly, and with the strictness of the police, that “the formation of armed structures outside formations of the MUP [Ministry of Internal Affairs], the ZNG, and territorial defense will be considered illegal creations of a private army. In such cases, the authorities of the Republic of Croatia will take steps to disarm them.”

How at that time will they treat, for example, members of the HOS who have the insignia of the party to which they belong on the right sleeve of their uniform and on

the other the insignia of the National Guard Corps? It is really difficult to foresee from which sleeve the HOS-ites will remove the insignia, because it is clear to everyone that their party does not accept the policy of the Croatian Supreme Command, especially on the issue of defense.

All that is certain is that absolute victory in this war can be achieved only by the unity of the Croatian parties, and that unity can be achieved only by involvement of the very top leadership, for example, certain segments of the National Guard Corps and the HOS. It would be equivalent to disaster if they should turn against each other! Then we would not even need an army as an aggressor nor the Serbian terrorists; the spirit of Lebanon will infect even people with the same momentary interests, and some new war will begin—and then it will certainly go all the way to extermination.

Although Croatia is at war, the organization of party armies is not a problem solely because defense is more difficult to organize. That is, the parties also have differing political goals, and there is some question as to what these various formations would consider to be the end of the war. Thus, the current government could consider liberation of Croatia in its present borders to be a military victory, but the Croatian Law Party will perhaps not agree with that and will continue to “liberate” both Bosnia and Hercegovina. And that means unending war. It therefore seems that the present government must urgently establish institutional control on the free territory of Croatia, define Croatia’s objectives in the war, obtain for them the full support of both the population and those who are fighting so as to achieve those goals in the future. The situation is, of course, not a straightforward one on any side, which is only one more proof that this region has been definitively Lebanonized. Is there any way at all out of this entanglement?

Appointment of Croatian Chief of Staff Analyzed

92BA0037A Zagreb DANAS in Serbo-Croatian
1 Oct 91 pp 16-17

[Article by Vlado Rajic: “The Eagle of Croatian Defense”]

[Text] There is a certain symbolism in the fact that an experienced pilot should have been chosen chief of staff of the Croatian Armed Forces. That is, from the first day of the war Croatian defense has urgently needed someone who would conduct operations on the front “from above” and would evaluate the moves made by formations of the Army and the rebels. Now that General Colonel Anton Tus has taken up that post, the Croatian military pyramid has the operational apex it needed, a precondition for subordination of officers, regardless of the level of command which each of them has in the republic’s defense mechanism. And subordination, however reminiscent it may be of the former JNA [Yugoslav People’s Army], is the foundation of success at the front. A command is, of course, obeyed more easily and carried out more wholeheartedly if the

officers and men in the units know that it was signed by someone who knows his job through and through.

Thus, Tus' arrival at the helm of defense actually constitutes a triumph of profession over improvisation, of knowledge over feelings, of proven ability over party allegiance. It is clear why this should have occurred in the Army and why it should have occurred first in the Army. We should leave until the first day of true peace the assessment of whether that "Tus syndrome" will spread to other areas as well. As far as continuation of the war goes, it is a good thing that this has happened to the Army in Croatia at precisely this point (some will say: Only now, but what can you do?).

The democratic unity government has demonstrated that the political process initiated by the multiparty elections in Croatia has in recent months been taking new directions: small and discrete, but nevertheless a step away from the fanaticism of the victorious party in personnel policy toward professional criteria in selection of the key people in the government mechanism. The malicious would say that these changes would not have occurred except for the war. The maliciousness of that criticism becomes unimportant at a moment when the war is pressing, and in spite of the truth cautious people are announcing that actually it has not even begun yet. And again, for the sake of paradox, the existence of the Supreme Command in Croatia, which was rumored to some extent a month or two ago, and then even that ceased, is confirmed by President Tudjman in his address to the nation.

The appointments of the military commanders in the regions of the fiercest conflicts in the war suggested that something was happening in this area. The names of the defense commanders of Slavonia and the other fronts were regularly accompanied by their rank, as an emphatic emblem of professional competence, and then a few days later the situation on the battlefield demonstrated the effect of those appointments even in the scantiest reports. At the same time, the presence of various political figures who had "taken over" organization of defense, has been declining, from influence on the battlefield to the number of appearances in press conferences. The general's arrival has probably ended the phase of improvisation in waging the war. What is not certain has to do with various more or less private armies, about which, we must believe, Gen. Tus knows everything, in particular the manner in which he will eliminate their bad influence on the defense of Croatia.

In short, the general's arrival is only in part a matter of the Army, the war, and defense. The difficult times that are coming even after the horrors of war will perhaps mobilize by the same criterion those who know at the expense of those who paper over the holes in their profession with their party membership card. And all of that because of a pilot. Precisely! After all, even Gen. Tus' biography shows that in those times of communism, which are so infamous from today's perspective, it was possible to obtain promotions even without beating

one's chest for the party and playing around with the privileges that came with political duties. In rejecting the temptation of party advancement, Gen. Tus chose gradualness; he tried to gain the respect of people in his own profession instead of the party toadies.

The confidence which he showed as a pilot at the controls of combat planes he also applied in commanding an Air Force group, in directing the 5th Air Corps, and in his position of responsibility as the head of Yugoslav air forces. His colleagues in the top military leadership in the Army, many of whom liked best to march to the party's drummer and have crowned their careers with today's bestialities, left Tus to make his way on the military ladder over his entire career, while they were promoted overnight.

Further, Tus' attitude toward those around him, typical of people who keep to themselves, represents in a way the promotion of exclusively personal qualities in the entire range of conditions for advancement in a career. That is, in the debate over the Yugoslav supersonic airplane, although Tus was the most qualified to judge, he stood aloof, refusing to become involved in trying to persuade the government authorities to enter into that project. At the same time, regardless of various military lobbies, he risked his career by entering into a quarrel with the advocates of building a supersonic airplane "with our own resources." On the list of Communists in last year's elections, his name cannot be linked to the fever of campaign rallies that were like soccer matches. So that although his name recently figured in various ministerial and commander combinations in Croatia, he himself has been doing nothing to speed up his own advancement. In each of those situations he resolves the pressures with tranquility: People know his ability, his qualifications, and the party to which he belongs. And no greater importance should be given to any of that than the importance which those characteristics have for him himself. And when the time comes that he is needed, he is there. And that is how it was at the moment when the development of the war and the necessity of establishing at least military equilibrium demanded a man with his background. Except that in the overheated internal relations, because of the harsh criticism of President Tudjman's political strategy in waging the war, the new commander's communist past went completely unnoticed, even by the most zealous advocates of party purity in the republic leadership and all the other leaderships.

Tus's passage to the Croatian side is actually a construction in day-to-day politics and a propaganda construction that has nothing whatsoever to do with his motives and his previous post, from which at this point he had to go somewhere. In all his 60 years he has been tied to Bribir by his birth and as his native place. Over the entire time of his military service his card on file in the personnel administration has always stated in the nationality blank that he is a Croat. Perhaps his Croatism would be too quiet for certain criteria today, but his distinguished place in the military hierarchy is only a "Croatian exception in a Serbian army." And actually,

the decision to take the command position in the Croatian defense is proof of Mr. Tus's splendid professional standard: He has placed his services at the disposition of the side that has been attacked, which is at the same time the side of the nationality to which he belongs. Tus's action has been explained more by his critics than by those who praised him for Croatian patriotism. Thus, one of the most distinguished spokesmen of the military establishment, the military columnist for *POLITIKA* in Belgrade, accuses Tus of treason, and he supports this with the fact that the pilot and general is a neighbor of Martin Spegeľ.

The dignity with which he has worn his general's insignia and soldier's uniform might have evoked even a broader demoralization of the officer corps of the Army. Particularly in the Air Force, in which, from the command to the last mechanic on the runway, his colleagues until yesterday, remember him precisely for that. Tus's emergence on the side of the forces opposing the assault of the soldiery led from Belgrade simply must have a resonance in that segment of the officer corps which perhaps did not even know the general's nationality. It will be difficult for an army condemned to ruin anyway, to hold on to its command personnel. After the phase of treason, resignation, and evasion of danger in the name of vague military goals, the phase of professional reaction, especially of the young officers, awaits the JA [Yugoslav Army]. The use of acquired military knowledge is no longer guaranteed merely by refraining from combat in the Croatian theater. The realization that the Army is too big for the only republic that is ready to receive formations on its territory during the withdrawal, along with Tus's example, will motivate some officers to remain soldiers, but on the side of defense, not aggression.

All of the reminiscences which this kind of development in the personnel at the top command level of the Croatian forces evokes, intensify the interest in Anton Tus as a person. Although he has been praised as a person who is direct, ready to intervene even in very ordinary situations in spite of his general's epaulets, who will simplify the procedure for obtaining journalistic accreditation when necessary, it is difficult to believe that Anton Tus will soon come before the public in any capacity that is at all personal. It is not possible to change overnight the standard by which one has been evaluating himself. Especially if with the development of the war and defense successes the militaristic forces, which even today are demanding that the Croatian Army develop into a respective military force in peacetime, become stronger in the Croatian public. In that case, the antiarmy disposition, which is today exclusively related to the JNA (and rightly so), could be transformed into rooting for the Croatian army, regardless of the cost. Judging by his actions up to this point, it is not certain that Anton Tus would even then be "available," or his characteristics in such great use as today.

Formation of that future Croatian army is only one of the tasks being heaped upon the chief of staff. The area in which he will need help by the civilian side of the

government concerns his making the relationship with the Ministry of Defense in the government of the Republic of Croatia more precise. Immediately after that comes the necessity of freeing the armed forces of Croatia from their roots in, and of the powers of the Ministry of Internal Affairs. As these delimitations are pursued, appropriate statutes should also regulate the relation between the military authorities and the bodies of government, from the republic to the opština. That complicated network of relations, jurisdictions, and to some extent appropriation of results in the war as one's own, while failures are seen as consequences of that confusion, only seems at first not to be related to the command role of Anton Tus and his General Staff. In actuality, there is exceptional relevance, because every order—including a military order—however professionally and clearly formulated, could be taken over by those whose job lies elsewhere. So, rounding out all the consequences which Tus's selection have for the overall situation in Croatia, we must also mention that of government administration. In a year and a half, an entire year of which was burdened with all kinds of conflicts (from barricades to aggression), the structure of the government has not been established. It is in the war that this shortcoming is most evident. Will the general tackle that job? We must believe that he will not, by contrast with the Supreme Command that simply must do it, unless it wants to burden the military operations with the consequences of its own neglect of that problem.

Measures Proposed To Salvage Economy in Republics

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24 Sep 91 pp 36-37*

[Article by Ivo Jakovljevic: "The Survival Plan"]

[Text] What kind of economic policy is still possible at all during a war (which has spread to all of Croatia) and after a war (in Slovenia) in the broad Yugoslav region? A densely packed answer to that question was announced the other day by PRIVREDNA KRETANJA JUGOSLAVIJE, issued monthly by the Economics Institute in Ljubljana, an economics journal covering the broad Yugoslav region which continues to be of the highest quality. The author of that study and of the answer to the question is that institute's director, Prof. Aleksandar Bajt, who for many years has been the most influential adviser of the Federal Government. That is why in newspaper jargon the Economics Institute itself, which operates in association with the School of Law of Ljubljana University, is frequently called Bajt's Institute. So that readers of ours who are not so up on these things can place this most recent advice from Bajt in the appropriate context, we will furnish a few other remarks.

Way back in the 1950's Aleksandar Bajt was himself one of the pioneers among the market-oriented Slovene and Yugoslav economists. He approached his peak as a scientist, however, after 1965, and then during the 1970's and 1980's he was one of the most influential

economists and one of those who did not accept "home-work" from any government. That is why since the publication referred to was started (in 1974) Bajt acquired and has constantly maintained the image of an economist who advises both the Federal Government and his own republic government, but they, as a rule, have paid less heed to him than to the powerful political figures of the moment. Often, then, Bajt has been more their critic than their adviser!

Planinc, Mikulic, Markovic

Under Bajt's direction, the Economics Institute in Ljubljana has brought together economists of European rank such as Joze Mencinger, Juraj Krizanic, and Veljko Bole. Perhaps it experienced its golden age of high influence on the FEC [Federal Executive Council] during the years 1982, 1983, and 1984 when the prime minister at the time, Milka Planinc, knew how to appreciate its advice. It was then discretely rejected by his successor, Branko Mikulic, but then abundantly served Ante Markovic in the early period of his tenure as prime minister. In the meantime, Bajt identified himself as a member of the school of real economics, and thus on several occasions displayed reserve toward current programs for economic independence or secession of Slovenia from the Yugoslav community, but he has shown equally strong reserve toward the more recent political tactics of the Markovic government. At one time, he was a fierce critic of the Slovene project for fast-break privatization, which arrived in that republic under the influence of the "flying cowboy," the American Jeffrey Sachs. As such, back in 1988 Bajt presented in his major work *Samoupravni oblik drustvene svojine* [*The Self-Management Form of Social Ownership*] all the virtues of the self-management utopia, but also all the limitations of the new utopia concerning rapid privatization of public property. In his recent study, in which he sketches a set of the most urgent measures to rescue the (Slovene, Croatian, Macedonian, etc.) economy on the road of independence from the war and legal chaos of Yugoslavia, Bajt started from the premise that it is nevertheless possible "to do something even for the economy" and to "normalize the economic system" in the face of the increasingly horrible scenes of the devastation of war and political chaos on the ruins of the Yugoslav community. As he wrote to meet the needs of the Slovenian government, he was thinking, he said, of all the others in Yugoslavia as well. But why is Bajt's plan of the most urgent measures particularly interesting today for the Croatian economy as well, at a time when it is being subjected to the greatest devastations of war in its history?

What is called Yugoslavia in geopolitical terms or under the SFRY Constitution, which is still in effect, seems at the moment to be the only country in the world in which war is being waged and in which none of the governments has any economic policy at all. Formally, there is an economic policy at the level of the SFRY, but the SFRY Assembly still has not adopted the FEC package for 1991, and it hardly will, although Markovic's government presented it even at the peace conference in the

Hague (but he cannot carry it out either in Belgrade or in Palagruza). Aside from the Federal Government, there are also six levels of macroeconomic decisionmaking in the republics, each of which proceeds more or less on the premise that the FEC is after all conducting some policy, which is then edited at the republic level according to the interests of the moment.

Concerning the Slovene case, which Bajt analyzes in particular, it is worth mentioning the influence of the fast-paced war against the JNA, [Yugoslav People's Army] and the Assembly decision on independence, while in the Croatian case there is the Assembly decision to the same effect, but without particular effect for the present in the increasingly devastating conflict with the war machine of the Army and the Serbs. Bajt's basic finding runs like this: There is no economic policy that promises anything at the moment either at the federal level or at any of the six republic levels! And that is why both in Slovenia, as well as in the other republics, they need to urgently correct the previous economic policy of the FEC, which the war and the legal chaos unplugged for all practical purposes. In the real context of Croatia, for example, the greatest (but negative) influence on the economy at the moment is the arsenal of the aggressor, the JNA, whose suicidal philosophy threatens all the republics with a return to the Stone Age. Is it possible even under such circumstances, when we factor in both the general trade blockade of all of Croatia and the daily destruction of its vital economic potential, but also the increasingly numerous human casualties, to conduct any kind of economic policy? Bajt still believes that an affirmative answer to that question is possible, but it is necessary to adopt a series of urgent measures which would be of benefit not only to the Slovene economy, but also the Croatian economy.

Supply-Side Economics Even in Wartime

To combat the exclusion of Slovenia and Croatia from the country's monetary and foreign exchange system, which is still in effect and was adopted by the National Bank of Yugoslavia back on 27 June 1991 in response to the news of the political independence of those two countries, Bajt recommends paying wages and salaries in the shortest possible intervals, frequent clearance of debts and claims, greater use of checks, along with partial or complete revaluation of the savings deposits of individuals, and the issuance of scrip if there are difficulties with cash. Until Slovenia or Croatia can have its own currency, Bajt feels we also have no need to adopt the Law on the National Bank of Slovenia or the NBH [National Bank of Croatia]. In trade with other republics, Bajt advises Slovenia and Croatia to use bilateral trade agreements in order to augment exports or production in general, i.e., in order to halt depression. Bajt at the same time rejects Keynesian methods of increasing demand through larger budgetary expenditure or issuing money, and he favors the techniques of supply-side economics. In translation, this means placing value on capital and labor according to relations on the market, so

as to mobilize all available economic factors to increase production in the shortest possible time.

Bajt sees that "mobilization of all economic resources" as the key to saving the economy in the entire country in the face of the growing forces of disintegration, war, and depression. Bajt goes on to criticize the Slovene variant of Sachs' model for rapid privatization of public property. He says that privatization, as economic theory, has been pointing out in its own way for centuries, is not an economic resource, and that therefore even today it is the only factor which production can do without! Imposed privatization is a blind alley, and Bajt continues to advocate business enterprise, transformation of a larger portion of "self-managed" property into collective property, whence many enterprises will move on to additional capitalization, mixed ownership, and creation of property through the production of new values rather than through constant redistributions of what already exists. It is even Bajt's assessment that privatization through redistribution could cut back production still further, and it therefore should be avoided. The Yugoslav economic system has for years assumed constant redistribution of income. Should we now supplement it with redistribution of capital? Bajt wonders rhetorically. Where there have been radical political reforms, as in the Slovene and also the Croatian case, development in the direction of private ownership and an open market cannot be restrained anyway, and so therefore, Bajt says, they can be left to themselves!

Bajt addresses his fiercest criticism to the Federal and republic governments because of interest-rate policy. "The flight of capital abroad and its concealment under the mattress have become widespread with good reason, which official policy has viewed almost without any interest, but at the same time it is dreaming about large loans abroad. It is forgetting that those same loans have become necessary because the unsuccessful (Federal and republic) stabilization policy wasted \$8 billion of foreign exchange reserves in just 10 months. Instead of preventing that, it satisfied itself with a separation based on the division of something whose flight it itself fostered! Economic policy (at both the Federal and republic levels) is ready to pay high real rates of interest on foreign loans, just as was the case during the previous regime, and it goes on expecting individuals to go on forever making a present of their money by means of real negative interest rates! Which perpetuates the myth of the primacy of the state and of the individual as its subordinate means. The hope that the population will under those conditions come out in favor of the economic independence of the particular republic by placing its savings in domestic banks, a kind of economic plebiscite, as it did by voting for its political independence, is altogether erroneous, because it is far from reality."

That is why Bajt is explicitly demanding "as a minimum" immediate initiation of current revaluation of all deposits in the banking system to the full amount of inflation and crediting to all of them real rates of interest approximately equal to those abroad. At the outset, the

return of capital from individuals to the banks would be limited to short-term deposits, but with the restoration of confidence it could quickly spread to all types of banking services. The growth of savings would create the capital so needed to finance business operation and new investments, which could be counted on to revive production even under the most serious political circumstances. The only alternative to real interest rates is opening up the country to what we might call vulturous foreign capital or going back to a state-planned economy.

Bajt is also calling for an urgent change in exchange-rate policy. Normalization of the entire foreign exchange market presupposes that the exchange rate is formed on the market, but also that banks are buying and selling foreign exchange at this price in transactions with the economy and individuals. Because abrupt normalization to such a great extent is not possible all at once, it would be good—Bajt recommends—to first introduce real positive interest rates on all types of foreign exchange savings, but at the same time remove all restrictions on disposition of the savings accounts of individuals, so that every saver can at any moment withdraw from his account all the foreign exchange which he has.

Private Savings Banks

It would be worthwhile to establish private savings banks or a kind of legalization of currency exchange firms. Until transactions with the foreign exchange savings of individuals are altogether normalized, all the banks would have to maintain almost 100-percent cash reserves! The so-called old foreign exchange savings of individuals, which are still blocked in the banks (because the foreign exchange simply does not exist), might be proclaimed a contribution of the owners to the economic independence of the particular republic. In that case, all the owners might immediately be offered the possibility of selling those deposits in exchange for government bonds or bank bonds denominated in the foreign currency, but including the possibility of their subsequent purchase and sale on the Ljubljana or Zagreb exchange, for example. The exchange rate itself might be switched to a controlled floating regime, and then normalization of foreign exchange savings would bring about normalization of monetary transactions in general, and over the medium term foreign exchange savings would logically wither away.

Because of the disastrous situation in production, exports, and imports, Bajt also proposes a third set of measures, which for a time would replace high liberalization of imports with an appropriate protective policy in order to gradually strengthen the competitiveness of exports. This would put a stop to the further decline of production, but at the same time it would lower the social price of structuring the economy (unemployment and the immense drop in the standard of living). In concrete terms, Bajt feels that tariff and nontariff protection of domestic production should be returned to the 1988 level, but at the same time restricted to a specified number of years during which it would be gradually

reduced. "I think that 10 years," Bajt says, "is the upper limit for that period of time."

Secession from Yugoslavia, that is, also necessitates a precisely defined set of short-term measures, which might even be called a survival policy. If, incidentally, Serbia should choose a policy of destruction of everything that exists in the region of Yugoslavia, and in Croatia in particular, in order to save Milosevic's system of power, then the choice of Slovenia and Croatia mentioned above is really an economic policy without any alternative. Once again Aleksandar Bajt has offered his advice in good time.

Croatian Minister on Independent Monetary System

92BA0038B Zagreb VJESNIK in Serbo-Croatian
29 Sep 91 p 4

[Interview with Jozo Martinovic, finance minister of the Republic of Croatia, by Vesna Antonic; place and date not given: "The Foundations of Our Own Money"]

[Text] In discussion of the disassociation of the Republic of Croatia from what is now the former Yugoslavia, one obligatory topic is creation of the new state's own credit and monetary policy as one of the foundations of its independence and sovereignty. Jozo Martinovic, M.A., finance minister of the Republic of Croatia, talked to us about that big job, in which issuing Croatia's own currency is an extremely important task, but by no means the only one.

"When we talk about the monetary independence of the Republic of Croatia, we should bear in mind the fact that on 27 June of this year the National Bank of Yugoslavia [NBH], contrary to the Constitution, contrary to legal statutes, and also contrary to business ethics, did what amounts to expulsion of Slovenia and Croatia from Yugoslavia's monetary and credit system. It is utterly clear that at that time the National Bank of Croatia [NBH], the commercial banks, the Ministry of Finance, and all other factors in Croatia's economic life began to seek alternative solutions. Abiding by the limits for this year, previously agreed to at the level of the country, they began to seek solutions leading to their own credit policy, and they also began to think about monetary independence," we were told by Mr. Martinovic at the outset of that big job.

Substitution of the NBH

"At the beginning of this July, the Croatian Assembly and government of the Republic of Croatia adopted decisions whereby the NBH would in practice substitute for the NBH and thanks to which enterprises in Croatia could enjoy the same privileges or have the same conditions for conducting their economic activity as all other enterprises in Yugoslavia. At that point, we began issuing money for all the purposes set down in the unified credit and monetary policy for this year. Thus entities in Croatia did not suffer harm from expulsion

from the credit and monetary system. Indeed, that formula was much simpler, and also the people working in the NBH live much closer to the economy and the banks than the people in the NBH. At that point, professional competence and the will to solve the problem were brought to bear."

[Antonic] Tell us all the things that have been done already for the future independent functioning of the credit and monetary system in the Republic of Croatia.

[Martinovic] The commercial banks in Croatia have been using selective credits approved in advance in the unified monetary system of Yugoslavia, specifically for these purposes: in agricultural production, to purchase wheat, for the decline in foreign exchange savings.... Likewise, the NBH and SDK [Social Accounting Service] introduced various measures of optimum handling of cash, so that even from that standpoint we in Croatia have not had a problem with the trade in goods and services. There has also been a sufficient supply of bank notes so that here there could not be any difficulties at all, except that clearly optimization measures must continue to be carried out, the greatest effort should be made to use noncash payment with checks, credit cards.... Because the NBH has not withdrawn its unconstitutional and unlawful decision expelling Croatia and Slovenia from the unified monetary system of Yugoslavia even after three resolutions of the FEC [Federal Executive Council], the NBH, the Ministry of Finance, and other factors in the economic life of Croatia have undertaken to draft their own Law on the NBH and all accompanying statutes necessary for the practical operation of the credit and monetary system in the republic. The proposed versions of those legal enactments are ready; however, the government and Assembly of the Republic of Croatia will not proclaim them until the end of the moratorium whereby Croatia assumed the obligation not to take anything related to independence while it was in effect. Accordingly, the moratorium will be respected, but as soon as it expires, then these laws will be proclaimed valid. During that period, we are getting along with the decisions made previously, which in practice took the place of everything taken away from us unlawfully and unconstitutionally. In short, during this period everything has been prepared that is necessary for our own credit and monetary system.

A Fourth of Federal Foreign Exchange Reserves

[Antonic] To what decisions and laws are you referring?

[Martinovic] Before the moratorium was proclaimed, the Assembly of the Republic of Croatia confirmed certain federal laws, for example, the Law on Banks and Other Financial Organizations, the Law on Accounting, the Law on Financial Transactions, on securities, so that life could go on and everything could function, because those federal laws were taken over as our own. At the same time, proposed versions of our own laws were also approved, for example, the law on the NBH, work was done on the law on securities, on financial transactions,

on accounting, and all other laws. These laws will be adopted as needed, that is, depending on when the Croatian Assembly or government of the Republic of Croatia decides that a particular independent piece of legislation that has in practice been approved should be proclaimed. It is clear that we do have the knowledge for introducing an independent credit and monetary policy, and, which is very important, a sufficient number of specialized personnel. Accordingly, from the technical standpoint we are ready in all the institutions working in this area to begin to work independently even tomorrow.

[Antonic] What is the basis of the future Croatian currency?

[Martinovic] In the process of disassociation with Yugoslavia, about 25 percent should go to Croatia, that is, a fourth of federal foreign exchange reserves, which are in foreign currencies and in gold. However, the Republic of Croatia has an economy which in a few years is able to create the basis for its own vital activity, for a firm national currency, for building foreign exchange reserves, and for repayment of all credits which must be taken in the period to come. In this connection, we should bear in mind the fact that Croatia, according to estimates, has already suffered damage greater than \$10.5 billion, which is a burden that has to be carried along with all those burdens which we have had up to now and those which we have inherited. But that estimate, unfortunately, is not the final one. The damage is growing every day, and according to new estimates, it will amount to more than the annual social product of the Republic of Croatia, which amounts to \$15 billion. It is fortunate that Croatia is not in debt, that it does not have a large public debt and that it has a human potential as well as all the other conditions for being able to incur foreign indebtedness, a public debt, to solve the problems which it now has, for example, the problem of foreign exchange savings, financial rescue of the economy, financial rescue of the banks.... Accordingly, it is certain that in peacetime, in which one can respect, in which human abilities can make themselves felt along with all the other advantages which the republic possesses, Croatia can meet all the obligations which it will undertake and at the same time raise the standard of living of its citizens.

[Antonic] What about joining world monetary organizations?

[Martinovic] There will be a problem joining world and European organizations, but after recognition of Croatia's independence, even they can be overcome. The fundamental problem, though, is recognition of independence, and after that we will gradually be able to join the International Bank for Development and European and all other world institutions, beginning with the IMF, the World Bank, the European Investment Bank, and all other banks. What is more, everything depends on us when it comes to the degree of success in maintaining a strong national currency, it will be up to us to hold consumption firmly in check and to do things in the field

of stability, business operation, and development. Croatia has all the prerequisites for stable business operation, it can meet its obligations, both those it now has and those it will have to assume in the coming period in order to renew a country destroyed by war and also to renew economic capacities which have suffered greatly in the war. We have factories that have been completely destroyed, including "Vuteks," "Borovo," and "LIA." ... In all the crisis areas, there is not a single economic structure that is not damaged or completely destroyed. Foreign indebtedness will certainly be necessary to renew all that.

Stabilizing the Economy

Any state is nothing more than a large family. Accordingly, if in a family care is taken about earnings, about the amount of newly created value, and about expenditure, then there are no disruptions in that family, and there is no need for any particular measure. So, if we controlled expenditure, government expenditure, personal expenditure, wages and salaries, to the extent that we keep them in line with earnings, there will be no difficulties with the stability of the currency. After all, a stable economy results in a stable currency.

[Antonic] How long will it take us to stabilize the economy?

[Martinovic] It is very difficult to forecast the period of time necessary to stabilize the economy once again. If the destruction of the war ceases in the next few days, then it is certain that in two years we could rebuild everything that has been demolished and destroyed to the point where it can yield certain results. However, it is thankless to forecast, because in such situations people get additional energy, enthusiasm, and strength. Better solutions arise, people create and carry out certain measures, so that results considerably greater than those anticipated are achieved in shorter periods of time. There is evidence of that in this war, in which people have had a force against them 10-fold or 15-fold greater, and yet they have defended their towns, their cities, their settlements, and factories. I am certain that in a period of two years, given foreign aid and credits, we could rebuild the country devastated by war and organize production and business operations that would ensure stability and a rise in the standard of living.

[Antonic] Can you be precise about the date for introducing our own currency?

[Martinovic] Having our own credit and monetary system means having our own currency. But when the time will come for us to decide on issuing our own currency depends on a number of circumstances. First of all, on whether the conditions have been brought about for stable business operation. Otherwise it would be insanity to issue our own currency. So, depending on the conditions, on our endeavors and results, the national currency will also be forthcoming. There are no problems with a possible replacement of the present currency for the future currency, because parity will be

established, it certainly depends on a number of circumstances and only then will substitution be undertaken. Citizens who have the "old" money at home bring it to the banks, the post office the SDK where it is exchanged for the new money. And what they have in savings accounts, in current accounts, in various

claims or debt is automatically worked out in the bookkeeping and exchanged. This is a large technical task involving many institutions, but there is nothing unknown or unconquerable in this area that cannot be very quickly carried out, Jozo Martinovic, M.A., finance minister of the Republic of Croatia, concluded.

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